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ELEMENTARY POLITICAL ECONOMY

BY

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P R E F A C E.

OF all the sciences Political Economy is one of the most important. It is the foundation of public and private prosperity. Hence, every person who is to be a citizen of this Republic should have a good knowledge of the elementary principles of Political Economy. It should be one of the prescribed studies in the public schools, but it has seldom been taught outside of colleges and the higher seminaries. It has always been considered a most intricate subject, and hence to be attempted only at the close of a long course of study; but it does not seem possible that a science of such importance can be too difficult for common people to understand.

May it not be that the trouble is with the text-books rather than the subject?

The old treatises are full of statistics, discussions, theories, opinions, hypotheses, and arguments; but these are worse than useless in a text-book of elementary principles. It seems, therefore, that there is need of a work on Political Economy which shall be elementary, plain, simple, easy;

and which can be comprehended by pupils of average ability.

The author has endeavored to supply this demand in the following pages. He has presented conclusions rather than discussions, facts rather than theories, principles rather than hypotheses. In regard to disputed questions—like the tariff—reasons pro and con have been given, and the learner left to form his own opinions.

The author claims no originality. He has simply compiled, from sources considered reliable, a text-book which he trusts will prove a welcome assistant to teachers, and a help to students. He has tried it in the class-room, and is satisfied that it is not too difficult for comprehension by students of ordinary capacity.

The author would also take this occasion to thank those who have given so hearty a welcome to his "Book-keeping," and would express the hope that their opinion may be as favorable in regard to the following pages.

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INTRODUCTION.

DEFINITIONS.

POLITICAL ECONOMY is the science of values. It treats of the *production, distribution, exchange, and consumption of wealth*. Political Economy should not be confounded with Politics. The two terms have essentially different meanings; and yet the distinction between them is seldom clearly apprehended by the popular mind. Politics is the science of government. It treats of the relations and duties of the people and their rulers; and teaches how the privileges and rights of citizens may be protected and preserved.

Political Economy has no reference to form of government, choice of rulers, enactment of laws, administration of national affairs, liberties of the people, or character of rulers; only so far as these things have an influence on the wealth and prosperity of citizens. They are kindred sciences, intimately connected, but occupying distinct provinces. Political Economy has reference to the wealth and prosperity of the people. Politics concerns the people themselves.

VALUE.

Value is of two kinds, intrinsic and commercial. *Intrinsic Value* is the worth of an object as indicated by its utility.

Commercial Value is the worth of an object as indicated by its power in exchanges.

Frequently these two kinds of value are essentially different. For instance, the intrinsic value of air is inestimable, while its commercial value is nothing. Its presence is universal, hence there can be no motive for wishing to obtain it in exchange for any other commodity. The want of it alone can demonstrate its intrinsic value.

Water, like air, is absolutely indispensable, but it can have no commercial value unless it is produced by some local scarcity. Even then it becomes valuable commercially simply on account of the labor necessary to obtain it under the peculiar circumstances. Thus, we perceive that the most useful things are not always the most valuable in the market. The term intrinsic value is frequently designated *utility* in treatises on Political Economy. The term value is then restricted to commercial value. It will be so understood in this treatise when not otherwise stated.

Money is an authoritative standard of estimating value, and is employed as a medium of exchange.

Worth is the real value of a thing.

Cost is the value as indicated by the amount of

labor necessary to produce a commodity, or the amount of money required to purchase it.

Price is the amount of money at which an article is valued by the seller.

WEALTH.

Wealth consists of all exchangeable commodities and conveniences designed to supply human needs, satisfy human wants, or gratify human desires.

It is evident that an object must possess exchangeable value in order to become an element of wealth. An object may be useful in the highest degree, and still not constitute wealth. Air and sunlight are absolutely indispensable, but they are not elements of wealth, because they have no exchange value. No one wishes to purchase them, for a sufficiency may be obtained without price. A man may possess an abundance of these things, and not be wealthy, for he cannot exchange them for any other commodity.

It is also evident that an object must be adapted to meet the needs, wants, or desires of mankind, or it will not be considered an element of wealth; there will be no demand for it; men will not labor to obtain it.

Labor is the voluntary effort of a human being designed to accomplish some useful purpose. It is the prime element of wealth. Without labor there would be no wealth; without the desire for wealth there would be no labor. Men will not

labor to secure what they do not want; they do not care to retain what they do not desire.

Capital is that part of wealth which is employed in the production of wealth.

Capital is either quick or permanent.

Quick capital is that which is perishable or rapidly consumed in the production of wealth.

Permanent capital is that which is comparatively permanent. Thus cotton, wool, lumber, etc., to be manufactured, are usually called quick capital; buildings, machinery, etc., permanent capital.

Capital may also be classed as *productive* and *unproductive*.

Productive capital is that part of a person's wealth which is actually producing other wealth.

Unproductive capital is that which for the time is *not* productive. These two classes frequently change places,—productive capital every day becomes unproductive, and vice versa.

A *capitalist* is a person who possesses capital.

It will be readily perceived that all capital is wealth, but all wealth is not capital.

POLITICAL ECONOMY.

CHAPTER I.

WEALTH OF SAVAGES.

THE spontaneous products of Nature, untouched by human hand, are not wealth. The mine must be worked, the marble must be quarried, the soil must be cultivated, the fruit must be gathered, labor must be applied, in order that wealth may be produced. But men are naturally lazy ; they do not love work for the sake of work ; they love ease ; they are indolent. But men have certain needs, wants, and desires which are usually stronger motives than love of ease. The savage, influenced by the necessity for food to satisfy his hunger, pursues the game ; feeling the need of shelter from the storm, he constructs his rude wigwam ; desirous of adornment, he endeavors to obtain ornaments for his person. But his appetite is stronger than his reason. His desire for present gratification is stronger than that for future happiness. He lives for the present, careless of the future. Necessity alone can overcome his

love of ease. The result is, that consumption rapidly follows production. Consequently there can be very little accumulation of wealth among savage tribes.

What they possess is usually obtained by appropriating the spontaneous products of nature. Their food is generally secured by fishing and hunting ; their clothing is scarcely sufficient to protect them from the inclemency of the weather ; their huts are very far from being convenient or comfortable ; their tools and implements are of the rudest kind. Hence the wealth of the savage scarcely deserves the name. They exercise very little thought in regard to the future ; they are not inclined to labor more than is absolutely necessary, consequently the production of wealth is very meagre, its accumulation still less. This is the teaching of Political Economy in regard to the wealth of barbarous tribes. History confirms the truth of theory.

CHAPTER II.

WEALTH OF SHEPHERD TRIBES.

As savage tribes improve intellectually and morally, there is a corresponding increase in the production of wealth. When reason and conscience begin to restrain appetite and passion, self-love becomes stronger than self-gratification : future

comfort becomes an element of calculation ; the love of ease yields to the desire for accumulation. Hunger teaches men that it is not wise to depend on fish and game for the support of their daily wants. Famine shows them the need of providing food for the time of scarcity. Hence they gradually cease to depend entirely on fishing and hunting for their support, and learn to subsist largely on their flocks and herds. Their food, for the most part, is flesh, but it is that of the domestic animal, rather than of the wild animal. The rude wigwam of the barbarian gives place to the more substantial hut. The dress and habits of the savage are gradually laid aside, and the people advance one stage in civilization ; they cease to be savages, and become shepherds.

True, the shepherd's life is kindred to that of the hunter, but it requires more labor, more fore-thought, more self-restraint, more care, more reason, more judgment. The result, as might be expected, is the production of more wealth. As men advance from a state of barbarism to the second stage in civilization, they cease to rely exclusively on the spontaneous products of the land and the water for their *own* support ; but they still depend entirely upon the uncultivated soil for the sustenance of their flocks and herds. Therefore the homes of shepherd tribes can only be temporary. Hence their wealth must be movable. Permanent homes, stable possessions, abun-

dant wealth, advanced civilization, such wandering tribes of shepherds can never have. It is only one of the stages of transformation in the progress of a nation from barbarism to a high state of civilization. It is the second stage in the production of wealth.

CHAPTER III.

WEALTH OF AGRICULTURISTS.

A NOMADIC life does not always satisfy. Moving from place to place is tiresome and annoying. Men become attached to the spot where they play in childhood. But when food and water fail in one locality, the shepherd must abandon his home, and drive his flocks and herds to another. When a severe winter comes, his flocks and herds die for the want of food which he has neglected to provide.

Sooner or later, men become tired of shepherd life, and begin to desire permanent homes, fixed habitations, stable wealth. They crave comforts as well as necessaries. But these cannot be secured while moving from place to place. Hence, gradually they abandon their nomadic habits and begin to cultivate the soil, in order to obtain a permanent supply of food for themselves and their flocks. They build houses to protect their wives and children from the inclemency of the weather, they construct barns to shelter their horses and

cattle, they cultivate and dress the soil, they plant and sow the seed, they weed and tend the crop, they gather the ripened harvest. Thus nomadic tribes of shepherds gradually abandon their former habits, and become farmers, agriculturists. They learn that the soil is a slow, but sure paymaster. They perceive that the greatest reward is not for spasmodic efforts, but for systematic, intelligent, continuous labor. Experience shows them the need of forethought; want compels them to practice economy; and a desire for the comforts and conveniences of life leads them to toil for the accumulation of wealth. Such is the tendency of civilization. The shepherd becomes a farmer, or becomes extinct. He learns to cultivate the ground, or is buried in it. He advances to the third stage of civilization, or is swept into oblivion.

During these transition periods certain changes take place which have a powerful influence on the production of wealth. Some of these will now be noticed.

CHAPTER IV.

DIVISION OF LABOR.

As has already been stated, labor is the prime element in the production of wealth. But the productiveness of labor depends very much upon circumstances. When the savage wants food, he

catches the wild animal, kills and eats it. When he needs a wigwam, he builds it. Each one supplies his wants by his own efforts. But no one is equally well adapted for every occupation. Different individuals have certain aptitudes specially fitting them for particular occupations. Thus one person may have a peculiar aptitude for tilling the soil. His physical and mental constitution may exactly fit him for the vocation. Such a person will do more and better work as a farmer, than he would if he possessed no love for his calling. But if he spends all his time and energy in cultivating the soil, he will obtain more food than he will need for himself and family, though he will be destitute of other things equally necessary.

Another person may have a special fitness for cutting and making garments. Hence he will do more and better work as a tailor than he will in any other occupation. But if he labors exclusively in his own favorite vocation, he will experience difficulties similar to those of the farmer. He will have too many garments, and nothing to eat. So it is with every individual in the community. Each has special tastes, desires, capabilities, aptitudes, which fit him for some particular occupation. Now if each individual attempts to supply all his wants by his own efforts, he will work at a great disadvantage. By doing a little of everything, he will be good at nothing. But if, on the other hand, each person engages in that kind of labor for which

Nature has fitted him, he will soon be able to do more and better work than if he should attempt to do a little of everything.

This fact men learn as soon as they are permanently located. When the population becomes more numerous, and the wants of men are greatly increased, advancing in civilization, they begin to crave not only necessities, but luxuries. This produces a demand for more rapid production. Then some system of division of labor is developed. Men with special aptitudes engage in particular callings, and then exchange the superfluous products of their labor for other commodities not needed by their neighbors. At first this division of labor is limited to particular trades or occupations. Thus the carpenter builds houses; the shoemaker manufactures shoes; the trader sells goods. But as the population becomes more dense, as civilization advances, the division of labor becomes more minute. Thus, in the shoe business, one man cuts the uppers, another cuts the soles, another cuts the heels, another makes the pegs, another drives them, and so on, until there may be a hundred men engaged in making one single shoe, before it is completed and ready to be worn. So it is with almost every branch of business, in an advanced state of civilization. The benefits of such a system of divided labor are apparent. Formerly, when the division of labor was more closely limited than at the present time, there was a narrower range

for choice of occupation ; the time occupied as an apprentice was much longer ; the work performed was not so good ; the production of wealth was not so rapid. Now, a young man may choose his occupation from ten thousand specialties ; may learn his trade in a few weeks, and take his place as a journeyman, doing good work and earning good wages.

It has been a disputed question whether there is any limit to this division of labor. But it need not be discussed here. Circumstances and not theories will determine the amount and the limit of the division of labor. Other things being equal, the more dense the population, and the more advanced the civilization, the greater the amount of the division of labor.

CHAPTER V.

SUBSTITUTES FOR HUMAN LABOR.

THE wants of the savage are few, and are supplied by a small amount of labor. But as men rise in the scale of being, as they advance in civilization, their real and fancied wants increase more rapidly than their ability to supply them by their own personal efforts. Luxuries of one age become necessities of the next. Men love ease, but they desire to enjoy the products of labor. Hence they soon cast about them to find some substitute for human

muscle. The one which is first and most naturally employed is that of —

Domestic Animals as a Motive Power.—Whether all animals were once in a wild state, or whether the Creator intended that certain beasts should become the servants of men, is not a question for discussion here. Certain it is that, at a very early stage of civilization, men employed domestic animals to perform work for them. The ox, the horse, the mule, the camel, the elephant, and various other animals, have been compelled, by the superior intelligence of man, to serve him under different circumstances, in all ages, for numerous purposes. They have borne burdens, carried messages, hauled carriages, fought battles, and performed countless other valuable services. Thus domestic animals have supplemented the manual labor of their owners, and have contributed an immense amount to the aggregate of work performed. They have been, and still are, important auxiliaries in the production of wealth.

They are indispensable, and yet they do not fully supply the demand for motive power in civilized life. They are convenient, profitable, necessary; but the cost of obtaining, the expense for feeding, the risk of keeping them, are all serious objections. Hence the tendency to substitute some other force, which will accomplish the same purpose with less trouble, expense, and risk. Naturally men seek some method of substituting in-

organic force for organic. Generally the first advance in this direction is the employment of—

Wind as a Motive Power.—Early in the world's history, men employed wind for a motive power instead of muscle,—how early we do not know. It has been used for grinding corn, pumping water, propelling boats and ships, and numerous other purposes. It is still employed extensively in many localities. Hence it has been, and still is, an important factor in the production of wealth.

But it is so variable and uncertain that it cannot be relied on where a steady, continuous force is needed. The objections are so serious that mankind soon learned to employ—

Water as a Motive Power.—Experience soon teaches men that dead matter is a much more reliable force than living muscle. But falling water is decidedly preferable to moving atmosphere. The cost, like that of air, is nothing, except the expense necessary for its application. Gravitation furnishes power, the heat of the sun renews it, man by his ingenuity applies it. Its value as a motive power cannot be estimated. It has contributed greatly to the production of wealth. It has been an important factor in the progress of civilization. Mankind have obtained many necessities, secured many conveniences, and enjoyed many luxuries, which they never could have possessed, had it not been for the motive power of falling water.

For generations men were satisfied with water as a supplementary power. But at last the world began to desire something better. It was not adequate to meet the wants of an advanced state of society. Then scientific men directed their attention and energies to the discovery of an agent which should meet the demands of the age; which should be practically unlimited in power; which would not be destroyed by drought or flood; which could be safely, easily, uniformly applied. These experiments led to the adoption of—

Steam as a Motive Power.—By observation and experiment it was ascertained that the *vapor* of water is vastly more powerful than water *itself*. It then only remained to invent some simple machine by which this new force could be applied and utilized. “But the hour of need never waits for the man of genius.” “Nature never withholds her secrets from him who persistently searches for them.” Watt, Stephenson, and other men of genius invented an engine by which the newly discovered force has been successfully applied; by which the wheel, the car, the loom, may be moved; by which all kinds of machinery may be propelled; by which an enormous amount of manual labor may be saved; by which a vast amount of wealth has been and will be produced.

We might also here mention—

Electricity as a Motive Power.—Electricity has been successfully employed for conveying messa-

ges over the land and under the ocean; for lighting our streets, our homes, and public buildings; and for numerous other useful purposes. It is a powerful agent, practically omnipresent, and almost omnipotent. Already wonderful things have been accomplished by its agency; but what will be done by it as a motive power when it is brought under perfect control, no man can safely predict. The application of steam produced a revolution in the material world; the perfection of machinery by which electricity can as easily and safely be made to obey the will of man may produce a greater revolution. It has already proved to be an important element in the production of wealth, an essential factor in the progress of civilization.

CHAPTER VI.

MACHINERY.

IT has been argued that men may exist in a state of absolute barbarism, feeding upon the spontaneous products of a tropical climate, as do brutes, without tools or implements except what Nature has provided for them. However this may be in theory, practically no tribe has ever been found so low in the scale of being as to be entirely destitute of tools and implements. In the earlier stages of society these were extremely rude. They are used simply to enable men to employ their own

muscular powers more advantageously in producing the necessities of life. But every advance in civilization has been preceded, accompanied, or followed by a corresponding improvement in tools and implements. The invention and manufacture of tools have been important elements in the production of wealth.

When the only method of supplying the wants of men is manual labor, the means and methods of applying force are extremely simple. But when other powers are to be employed to supplement human muscle, there is need of more elaborate contrivances by which to accomplish the purpose. This leads to the invention and manufacture of more elaborate machinery. Man can guide his own footsteps by the exercise of his will ; but when he wishes to direct those of a horse, he needs a bridle. He can carry a bundle on his shoulder ; but if the horse is to become his burden-bearer, he must have a saddle. He can turn the green turf with a spade or a shovel ; but if the ox is to perform the same service, he must have a yoke, a chain, and a plough. He can pulverize the soil with a rake or a hoe ; but if the horse is to effect the same purpose, he must have a harness and a harrow.

Thus, when men began to use domestic animals as substitutes for manual labor, there was developed an absolute necessity for proper machinery. The demand produced the supply. The supply

resulted in an increased production of wealth. The savage may propel his canoe across the river with a paddle ; but when the wind is to be employed, instead of muscle, to waft the great ship across the broad ocean, there is need of machinery. He can crush his corn with a stone, on the cliff ; but when falling water is to be employed to perform the same service a thousand times more rapidly, there is need of a mill with modern machinery.

The pioneer may travel slowly across the country and carry a bundle ; but when an army with its equipments, its baggage and supplies, is to be carried across a continent, rapidly and safely, by means of a little vapor of water, an engine of peculiar construction is necessary.

A man may express his thoughts by writing them with a pen on paper ; but if millions of volumes are to be printed yearly, by means of steam power, only the genius of an advanced stage of society can contrive a machine which will accomplish such a result.

A man may stand in his own doorway and talk with his neighbor across the street ; but if he is to sit on the shore of the Atlantic and talk to another on the coast of the Pacific, there must be some kind of machinery by which the sound may be conveyed.

Thus, every force discovered calls for new machinery by which it may be applied. The introduction of new machinery increases the production

of wealth. The increase of wealth gives more leisure for study, invention, and discovery. These causes and effects mutually act and react upon each other.

CHAPTER VII.

CAPITAL.

CAPITAL is that part of wealth which is employed in the production of other wealth.

Although labor is the prime element of wealth, yet labor alone can produce no wealth. At first, the spontaneous products of nature are appropriated by means of human effort to supply the wants of men. But the amount of wealth thus produced is very small. At a very early stage in the progress of the race, a part of the wealth already acquired is employed in the production of other wealth.

Thus the bow, the arrow, the tomahawk of the American Indian might be exchanged for other things which would gratify his desires, and they may properly be considered wealth; but as they are retained in his possession in order to aid him in obtaining food for the future, they are also called capital. The hooks, lines, and boats of the fisherman are a part of his wealth; but they are also used by him to increase his wealth. They are his capital.

Seed placed in the ground by the farmer is valuable, but it is sacrificed in order that a harvest may be secured. Seed is a part of the farmer's capital. Payment made for labor, with the expectation that the return will be greater than the outlay, is capital.

It will be readily perceived that wealth and capital are not synonymous terms. All capital is wealth, but not all wealth is capital. The feathers and finery of the American Indian will gratify his desire for ostentation, but his bow and arrow will assist him in procuring food for the morrow. The shrubs and flowers on the lawn of the farmer may gratify his love of the beautiful, but his cornfield will produce food for the support of his family. Both are wealth, but only the latter is capital. A man may have any amount of wealth, but it is called capital only when employed for the purpose of producing additional wealth.

CHAPTER VIII.

INCREASE OF CAPITAL.

CAPITAL is constantly decreasing. Machinery wears out, workshops decay, and all other kinds of capital are liable to diminish in value: but the natural tendency is toward an increase of capital. Like attracts like, wealth attracts wealth, capital attracts capital. The one talent hid in the ground

was unproductive. The two, the five, the ten were used, and returned with usury.

There are numerous circumstances which tend to promote the increase of capital, a few of which will now be noticed.

Location. — A territory with mountainous regions so situated as to condense the moisture of the clouds in proper quantities; with fertile valleys broad enough to sustain a numerous population; with navigable lakes and rivers sufficient to furnish abundant means for internal traffic; with safe, convenient, and numerous harbors communicating with the ocean, the great highway of foreign commerce; such a territory will naturally attract capital from without, and create capital within its own borders. The increase of capital in such a nation must be rapid, provided that other circumstances are favorable. The United States is so situated.

Nature of the Soil. — A barren, rocky, mountainous region, without commercial facilities, without mineral resources, without agricultural advantages, where the inhabitants are compelled to obtain their support from the products of the soil, cannot be so favorable for the increase of capital as a fertile valley like that of the Mississippi. The nature of the soil frequently determines the character of the inhabitants. Poor soil is the native home of poverty. It furnishes stopping-places for those who can obtain no better loca-

tions, while good soil attracts men of talent and energy and develops capital.

Climate. — Climate, also, has an important influence on the increase of capital. A rigorous climate like that of Greenland, or an unhealthy one like that of Africa, is unfavorable for the increase of capital, since it is difficult to procure the labor necessary to render its employment profitable. But where the climate is agreeable and healthful, there men are energetic and vigorous: there people love to dwell; there wealth concentrates; there capital accumulates, provided that other circumstances are favorable.

Character of the Inhabitants. — To the barbarian, present ease and enjoyment are much more important than future happiness and comfort. Of the exercise of forethought he knows very little. To the practice of economy he is a stranger. With him consumption is the rule, accumulation the exception. Theory would seem to indicate that there would be very little increase of capital among savage tribes. The history of the world confirms the theory.

But when men begin to exercise their reasoning powers they soon perceive that capital is an almost indispensable auxiliary of labor in the production of wealth. They see that labor is powerless without capital, and at a very early stage in the progress of a people they set apart a portion of their earnings for capital. Other things being

equal, every advance in the ability, the intelligence, the morality of a people, is accompanied by a similar increase in the amount of productive capital. And this increase is rapid, because the surplus wealth accumulated to-day is added to the working capital of to-morrow. Thus the capital of a nation, compounding continually, increases in a geometrical ratio. Whether there is a natural limit to this increase will not be discussed here. Certain it is, that if a people labor intelligently, reason correctly, live economically, and all other circumstances are favorable, they may confidently expect to accumulate property rapidly and permanently. But when the heart of a people becomes rotten, when the civilization of a nation begins to decay, it is certain that the height of prosperity has been reached; that the increase of capital will cease; that the diminution of property will commence.

Nature of the Government. — In the savage state might makes right; the stronger party appropriates the property of the weaker; there is no security for the products of labor; and consequently little incentive to accumulate capital. In a nation where the government is unstable, rapacious, tyrannical, revolutionary, capital increases slowly. It has a cowardly nature, and demands security.

The man who sows the seed wishes to be sure that he can have the privilege of reaping the

harvest. Government must guarantee that contracts shall be considered valid; that ownership shall be regarded as sacred; that wealth shall not be confiscated; that life and property shall be protected. Otherwise there can be no permanent increase of capital.

Capital is quick to perceive danger. It discovers the approach of riot, revolution, anarchy, with almost absolute certainty. It is an excellent political barometer. It is always in favor of peace, quiet, harmony, good order. Poverty can afford to be rash and radical, but capital is always a conservative element in society.

CHAPTER IX.

TRADE.

TRADE is the exchange of values, or the titles to values.

Trade is of two kinds, direct and indirect.

Direct trade is the giving of one commodity for another. This is frequently called barter.

Thus, one person has wheat, another corn; one gives the other a bushel of wheat and receives a certain quantity of corn. This is the simplest form of trade; in the early stages of society it is the only form.

The two parties meet, examine the articles, agree upon terms, and make transfers. There is

no third party, no money, no medium of exchange. Trade of this kind must necessarily be limited to those who live near each other.

But as people learn to appreciate the value of articles outside of their immediate vicinity; as they perceive the advantage of exchanging commodities with those who are not their near neighbors, market places are frequently established where people from the whole circle around may congregate at certain stated times and make exchanges. In this way the parties meet as before, and the trade is direct; but the conveniences for traffic are superior. This is usually the second stage of progress in trade.

But such a system of markets cannot long endure, for there is too much expense, too much travel, too much loss of time. Men cannot always meet each other face to face when exchanges are to be made.

A man wants tea from China, coffee from Java, sugar from Cuba, rice from India, and numerous other articles which he cannot procure of his neighbors or at local markets. But he does not care to take the time or incur the expense of visiting those distant lands where such commodities can be obtained by direct exchange. Hence arises a demand for middlemen, traders, or dealers, as they are sometimes called, to stand between the producer and the consumer. Goods pass from the producer to the wholesaler or merchant, thence to

the retailer or dealer, thence to the consumer. They may pass half around the earth before they reach their final destination. They may go through a hundred hands before they reach the consumer. The producer may live in China, and the consumer in the United States.

Exports are goods carried *from* one country *into* another.

Imports are goods brought *into* one country *from* another.

Exporters are merchants who convey goods out of a country.

Importers are merchants who receive goods from foreign lands.

Duties, customs, imposts, are taxes paid to the government for the privilege of importing or exporting merchandise.

Tariff is a schedule of duties payable to the government for the privilege of importing or exporting merchandise.

Duties may be specific or *ad valorem*.

Specific duty is a specified amount per yard, per gallon, per bushel, etc.

Ad valorem duty is a certain percentage on the cost of the merchandise.

As a people advance in civilization, their wants increase. As they become accustomed to the products of other lands, things at first considered luxuries become necessities, and there is a corresponding increase in imports. But imports must

be obtained in exchange for exports. Something cannot be secured for nothing.

Now it has long been a disputed question whether there should be any restriction upon the importation and exportation of merchandise.

In regard to this question, probably there has been more difference of opinion than in respect to any other in the whole range of political economy.

The shrewdest politicians, the wisest statesmen, the most learned scholars, the deepest thinkers, are by no means agreed in respect to this subject. Various theories have been advanced, numerous experiments have been tried, and still public sentiment remains divided. It should be remembered that this subject involves some of the most important questions in social science. Theories should not be adopted hastily in regard to restrictions in trade ; but they should be carefully tested in the light of history with reference to the present circumstances. Angry debate and party animosity are out of place in discussing such a subject. The laws of nations have differed as radically as have the theories of political economists, from absolute free trade, through all grades of restriction, to perfect non-intercourse with other nations.

The most important of these theories will now be presented, together with the arguments usually advanced for and against each.

CHAPTER X.

FREE TRADE.

THE theory of free trade is perfectly simple, namely, that there should be no restriction whatever upon the freedom of trade ; that the markets of the world should be thrown open to every man, without regard to national boundaries ; that there should be no charge for the privilege of importing and exporting merchandise ; that money to pay the expenses of the government should be obtained by taxing the persons and property protected : that every restriction upon the free exchange of commodities is unnatural, and will, consequently, be an injury to the producer or consumer, or to both.

The friends of this theory argue that, as the men of all nations belong to the same common family, therefore all should have the privilege of buying and selling wherever prices are the most favorable. They say that a man should have the privilege of exchanging commodities with his neighbor without being compelled to pay a tax on every article exchanged ; but according to the teaching of the Bible *every man is his neighbor*, therefore he should have perfect freedom to trade with any man on earth without the payment of duties. The answer is made that the cases are not alike. A man ought to have a right to exchange the products of his labor with

his neighbor freely, provided that there is no reason to the contrary. But if a man has bought land, and on it built a market-place for the purpose of exchanging merchandise with his neighbors conveniently and economically, then another man has *not* the same right to occupy that market-place as has the owner. Others have not the right to occupy stalls in that building without paying for the privilege.

Let us apply this same principle to nations. A nation spends millions of dollars improving its rivers and harbors, encouraging manufactories, providing commercial facilities, building railroads, and developing markets for merchandise: then that nation has a superior claim to the markets of that territory. It has a right to charge a man who has contributed nothing for all these improvements for the privilege of occupying such markets.

The man who has a farm better situated than that of his neighbor charges more for rent than the other. This is considered perfectly just. In like manner, a nation so situated that it has a better market than others has a perfect right to charge foreigners a reasonable amount for the privilege of buying or selling in that market. There can therefore be no doubt in regard to the *moral right* which a nation has to levy a duty on imports.

Then the question whether trade should be free or restricted becomes simply one of policy.

But the free trader asserts that every barrier

placed on a nation's boundary prevents the free exchange of commodities, and consequently increases the price which must ultimately be paid by the consumer.

The answer usually given to this assertion is, that the duties collected are paid into the public treasury, and the reduction of direct taxes will more than compensate for the increase in prices.

Again, it is asserted that a revenue should be collected by direct taxation, not by indirect methods: then every man will pay his just proportion of the public expenses. The reply generally made to this statement is, that no other method has ever been devised by which taxes can be collected so easily, so cheaply, and with so little complaint and opposition, as by levying a duty upon imported merchandise. It is confidently asserted by the opponents of free trade that the enormous amount of money which has been collected by indirect methods in the United States since 1860 could not have been obtained by direct taxation; the people would have rebelled.

It is also objected by the free trader that, when duties are levied on imports, the poor man must pay as much tax as the rich man. This is true if he purchases the same kind and an equal amount of imported merchandise, for the consumer must eventually pay the duty; but the usual method is to place a *high* tariff on *luxuries*, and *none* on *necessaries*, so that the poor man need not pur-

chase a single dollar's worth of imported goods unless he chooses to do so. Then he will pay no tax.

But it is said that the system of free trade is the only one consistent with true benevolence ; that a nation should open its doors and let foreigners have the same privileges as citizens. This is a very pleasing theory, but it fails when applied to the common affairs of life. A man does not throw open the doors of his house, his barn, his granary, his store, his safe, and invite every one to come and take what he desires. The man would soon have nothing left, and the partakers of his wealth would probably be injured by the possession of property which they did not earn. Such a man would be considered a fit subject for an insane asylum. Apply the same principle to a nation, and the absurdity will be apparent. If a nation has a good market it may be completely ruined by making it free for the importation of merchandise from all parts of the world.

Such a principle universally applied would make everything common, would abolish personal rights, would annihilate corporate privileges. But it is conceded that an individual may hold property, may enjoy certain privileges exclusively without injustice to his neighbor, and with benefit to society. So it is claimed that a town, a county, a state, a nation may possess certain natural advantages or acquired privileges, and charge others

for the use of them, and all parties be thus benefited. Charity begins at home. Benevolence has its limits.

CHAPTER XI.

TARIFF FOR REVENUE.

GOVERNMENTS are necessary in order to prevent anarchy. But governments cannot exist without money. Hence there must be some permanent system of replenishing the public treasury. There must be some way of collecting funds to pay the expense incurred in protecting life and property. Taxation of *some* kind is an absolute necessity. Now, certain classes of men advocate the theory that funds for the support of the government can be more easily and more economically collected by levying a tariff on imports than in any other way.

But when theory is put in practice, difficulties are always encountered. Hence various methods have been advocated.

Some have asserted that a certain percentage sufficient to pay the expenses of the government should be collected on all goods imported. But the opponents of this theory claim that such a system is unjust; that necessary articles should not be taxed as heavily as luxuries; that the poor man should not be compelled to bear as much of the public burden as the rich man; that home

industry should not be discouraged by a uniform tariff; that the theory has always failed when submitted to the test of actual trial.

Others have argued that all the revenue should be collected from articles which are injurious, like alcohol and tobacco. The advocates of this theory say, "Tax evil habits and vices, tax injurious articles."

But the question arises, When was an evil ever taxed out of existence? Men will have alcohol and tobacco as long as it is for sale, no matter what may be the price. By taxing these articles so heavily the poor man is compelled by the strength of his appetite to pay a large proportion of the public expense. Such evils must be prevented by legislation, prohibition, penalties,—not by taxation.

The protectionist objects to this theory because it does not protect home industry, except the making of whiskey and the cultivation of tobacco. By placing a heavy duty on these articles, the price will be raised, the production will be increased, and the evils which the tariff was designed to prevent will be promoted. This effect can be averted only by imposing a tax on production equal to that on importation.

Others, who advocate the theory of tariff for revenue only, say that luxuries alone should be taxed, so that the poor man should be exempt from taxation. The answer is that this practice stimu-

lates the home production of luxuries ; that it encourages the importation of staple articles ; that it drains the specie from the country ; that it ruins the home market ; that it reduces the price of labor ; that it injures the poor man ; and that it defeats the very purpose for which the system is advocated.

Hence in the application of this theory, which at first seems perfectly simple, numerous difficulties are encountered.

CHAPTER XII.

PROTECTION.

THE theory of the protectionists is this : That there should be a tariff on imported articles high enough to secure sufficient revenue for the support of the government ; that the taxes should be so adjusted as to protect home industry ; that there should be free importation of all raw material not producible in the country ; that native products and home manufactures should be protected by properly regulated schedules of duties ; that the tax should be so adjusted that the agriculturist, the mechanic, and the manufacturer may each be equally benefited.

But, it may be asked, how does duty on imports protect home industry ?

In the old world capital is plenty, interest is low,

labor is cheap, and men are satisfied with small profits. In the United States all these circumstances are reversed. Hence capital can be loaned, buildings can be erected, machinery can be purchased, laborers can be hired, merchandise can be manufactured, very much cheaper in the old world than in the new.

Now, it is asserted by the protectionist that if articles manufactured in Europe are permitted to come into free competition with those made in this country, one of two results will inevitably follow — either the price of interest, rent, and labor must be scaled down to the European standard, or our manufactories must be closed.

For example, suppose that cotton cloth can be made in England and brought to Lowell for five cents per yard, and suppose that it costs six cents per yard to manufacture the same kind of cloth in Lowell, if there is no duty on the cloth brought from England it can be sold under the very shadow of the mills in this country for less than the cost here, and still the foreign manufacturer will make a good profit. The result in such a case must be the closing of our mills, or the cutting down of prices to correspond with the pauper wages of Europe.

Hence, our laborers must become producers of raw material, and work at starvation prices, while the manufactories and the profits will be on the other side of the ocean.

The protectionist confidently asserts that such must be the result of free trade theoretically. And he as confidently points to the pages of history to prove that ruinous results have followed the practical application of the theory. He points to the poverty, the suffering, the misery, the degradation of the laboring men and women of Ireland as a practical example of the effects of free trade legislation.

On the other hand, it is asserted by the protectionist that opposite effects will always follow a high tariff judiciously adjusted.

Take, for instance, the same example as before. If cloth can be brought from England for five cents a yard, and manufactured here for six cents, then a tax of one cent would place both parties on equal terms in our market; but if a duty of *two* cents a yard should be levied, then there would be a margin of one cent a yard for profit. Cloth brought from England would cost seven cents, cloth made here could be produced for six. This would give our manufacturers practical control of the markets, and consequently increase the profits. But profits are always divided between labor, capital, and the manufacturer. And it is a well-known fact that the largest share of the returns is paid for labor. Hence the immediate result of high duty is an increase of the wages of the laborer, and the employment of home capital. But if the profits are greater, more manufactories will be built, more

laborers will be employed, and there will be a greater demand for the products of the soil. Thus the farmer will receive more for his crops, and be benefited by a high tariff upon imports. But laborers in manufactories will need houses and all other kinds of necessaries ; hence mechanics, merchants, traders, and, in short, *all classes* will be benefited.

This is the condensed theory of the protectionist.

To many persons the theory seems easy and plausible ; but there are difficulties in regard to its practical application in a territory as extensive and varied as that of the United States. Some of these will now be noticed.

Pennsylvania, for instance, is largely interested in iron, and demands a high rate of duty on it in order to prevent its importation from other countries. But as "everything is made of iron or with iron," a large part of the fifty millions of American people prefer that iron should be placed on the free list. But if the duty on iron should be entirely removed, every iron mine in the United States would be closed, or the prices of labor would be greatly reduced. Hence the producer clamors for protection, but the consumer complains that he is oppressed for the benefit of the few.

The lumbermen of the North call for a high duty on lumber in order to prevent competition from

British America. But the great majority of the American people demand cheap lumber for fenceless farms and houseless families. Hence, here is a clashing of interests not easy to be reconciled. Protection for one class is sometimes called oppression by another.

A few planters on the shores of the Gulf of Mexico clamor for a high duty on sugar, but the great majority of the people of the United States complain of being taxed too heavily for the benefit of so small a number. Some men contend that it would be more economical to pay the planters a liberal bounty from the national treasury on every pound of sugar produced, and then let sugar be imported free of duty.

Thus it is with every separate branch of industry. Each clamors for protection even at the expense of more important interests. Hence it is frequently contended that "protection of one class is oppression for another;" that "protection does not protect."

It is admitted that a high tariff raises prices of protected articles for the time being, and consequently increases production. But the opponents of the system contend that the result always is overproduction, and consequent stagnation. The cost being more than in countries where trade is free, there can be no foreign market. But the large profits stimulate production, and soon the home markets are overstocked; there is stagna-

tion, depression of prices, cutting down of wages, dissatisfaction of laborers, strikes of workmen, suspension of manufacturing, bankruptcy of employers, panic, distress, suffering of the masses.

It is argued that a high tariff is like any other stimulant. It produces a feverish, fancied, fictitious success which is sometimes mistaken for permanent prosperity; but which, in the end, will prove injurious to the great body of the people; that it inflates prices, encourages speculation, and leads to reckless commercial gambling; that it produces the very evil which it is designed to prevent,—the reduction of prices and the ruin of a market.

CHAPTER XIII.

MODIFIED PROTECTION.

DURING past ages various kinds of theories have been advocated in regard to restrictions upon trade, but all of them have been modifications of one or more of the three which have been explained. Some say, "Tariff for revenue, and protection incidental;" others, "Tariff for protection, and revenue incidental;" others, "Tariff for protection;" and still others, "Tariff to prevent importation." None of these theories need any further explanation.

There is, however, a kind of modified protection

theory advocated by some modern political economists which may need a passing notice.

It is a well-known fact, that in a new territory money is scarce, interest high, laborers few, and manufacturers need to be protected by a high rate of duty, in order that they may compete with those of older communities, where capital and labor are plenty. But as the people become more wealthy, as the amount of production increases, as labor becomes more abundant, as manufactories become more numerous, as competition becomes sharper, as the home market becomes better supplied, the duty on imported articles should be gradually reduced. As a people advance in civilization the artificial barriers should be removed, and all kinds of commodities should be freely admitted to the markets of the world.

The advocates of this theory contend that a high duty produces an artificial, local value, and hence there can be no permanent market for protected products with free-trade nations; that when the home markets are glutted, there must be an outlet for production, or there will be stagnation.

To compete with others in the markets of the world, therefore, there must be a reduction of cost, but to effect this there must be a lower rate of duty. Hence, it is contended by those who advocate this theory, that there should be a high duty for the protection and encouragement of home production during the infancy and childhood of a

nation ; that there should be gradual reduction as manufactories become more firmly established, and that the time may come in the progress of a race when absolute free trade will be a nation's true policy.

These men contend that the whole subject, like almost every other in political economy, is a practical one ; that no theory can be adopted which can be successfully applied under all circumstances ; that a thorough knowledge of economical history, and a perfect understanding of the present state and wants of the people, are necessary in order to decide what amount of duty should be levied. When a nation is involved in war, and needs every dollar which it is possible to collect, then the duty must be adjusted so as to produce the greatest amount of revenue. Protection must then be incidental.

Public policy and not party prejudice should control the question of revenue. Wise statesmen should carefully consider the situation and circumstances of a nation, and adjust the tariff to meet the demands of the times. Changes should be made to meet the changing condition of the people. What may protect at one time may oppress at another. What may benefit one people may injure another.

CHAPTER XIV.

MONEY.

As long as barter is the only kind of trade, there is no need of money. But as soon as there is an indirect interchange of commodities, there is a demand for some measure of value, some medium of exchange, some substance which shall be generally desirable, something which will have universal value.

Money is an authoritative measure of value, and is used as a medium of exchange.

The mile is a measure of distance; the acre, of surface; the gallon, of capacity; the pound, of weight; money, of value.

Various substances have been employed for money. Barbarous tribes have used shells; hunters, furs; fishermen, fish and salt; pastoral tribes, cattle, sheep, and goats; agriculturists, wheat, corn, fruit, tobacco. The American Indians used coal, lignite, bone, mica, pearl, carnelian, jasper, agate, and various other things. But the money most commonly used was wampum, a species of spiral fresh-water shell.

The ancient Greeks and the Anglo-Saxons employed cattle and slaves for money. The Carthaginians used leather; the Abyssinians, salt. Tobacco was a legal tender in Virginia in 1660; wheat in Massachusetts in 1641.

But there are objections to all these substances.

As money is a measure of value, it must possess value in itself, or must represent intrinsic value. A measure of length must have length; a measure of capacity, capacity; a measure of quantity, quantity. In like manner a measure of value must have value. A standard of value must be valuable. Like measures like, and when any article ceases to possess or represent value, it will no longer serve as a medium of exchange. No one wishes to exchange a valuable commodity for a worthless one. Hence, money should have a permanent value, independent of time, distance, or any other circumstance.

But in order to be universally desirable, money must possess peculiar properties.

It must be imperishable. It must be a substance which cannot be injured by climate, burned by fire, destroyed by time.

It must be divisible without loss, so that it can be used in small or large quantities and stamped at pleasure.

It must contain great value in small bulk, so that it can be conveniently stored and readily transported.

Its supply should be as uniform as possible. Its increase and decrease should not be so rapid as to affect suddenly the amount in circulation and consequently its commercial value.

These properties are essential for any substance which is to be taken as a unit of value.

Political economists have usually enumerated several others, which at least are very desirable.

Applying the four tests to the substances previously mentioned as having been used for money, they all appear to be more or less faulty. Shells have not sufficient intrinsic value; fish, salt, leather, are perishable; agricultural products are too bulky, and are subject to rapid increase and decrease in quantity; cattle and slaves may die, they cannot be kept without loss, they are not devisable, they cannot be easily transported. The result has been that as nations have emerged from barbarism, and have advanced in civilization, they have abandoned these crude and inconvenient forms of money, and have adopted gold and silver as standards of value.

These two metals seem to possess exactly the qualities requisite for money. The Creator seems to have designed them for that special purpose.

At first they were weighed.

Abraham weighed out to Ephron four hundred shekels of silver to purchase the burial-place at Machpelah eighteen hundred and sixty years before the Christian era. This is the earliest record to be found in history of the payment of money.

The custom of weighing out money was inconvenient and unsatisfactory, but, this being the best method known, it was continued for centuries.

CHAPTER XV.

COINAGE OF MONEY.

IT is not certainly known when or where coins were first stamped and used. Most authorities assert that gold and silver were first coined by the Lydians about eight hundred years before Christ. The Romans coined silver about 300 B. C. They coined gold about 200 B. C. But at the present time all civilized nations use one or both of these metals for money, and most nations use also copper, bronze, or nickel for the smaller classes of coins.

*Coin*s are portions of metal stamped by the sovereign power to indicate the exact amount and quality of the metal. Many persons have an idea that the government can increase or decrease the value of coin by altering the stamp without changing the amount of material. Some ignorant people think that the government could take *half-dollars* and stamp them *dollars*, and they would then be worth twice as much as they were before. This has been tried again and again, and has always failed; and it will fail as long as it remains impossible for man to create something out of nothing. Men may change the name of a coin, or they may reduce the weight and fineness of the material, but they cannot change the value of the same amount and quality of metal by such a change.

Formerly it was considered that the expenses for supporting the government must be paid by the king from his revenues. Hence, when the kings of Europe became greatly involved in debt, they debased the coin of the realm by decreasing its weight and fineness. Thus not only the creditors of the king were defrauded, but every creditor in the kingdom. If a king owes a creditor one hundred pounds of silver, and then makes a decree that a half pound shall be called a pound, because he possesses supreme authority, then fifty pounds of silver will pay the debt. But the creditor receive only half the value which was due him. . If he goes into the markets of the world he can purchase only half as much as he could with the hundred pounds. If he wishes to pay a debt already contracted, it enables him to defraud his creditors of one half the debt which he honestly owes him. This debasing of the coin enabled the king to cheat his creditors, and licensed every debtor in the kingdom to legally defraud those whom he honestly owed. Changing the weight or fineness of the coins will have the same effect in regard to value as a change in the length of the yardstick would have in respect to measure.

If a person has agreed to furnish one hundred yards of cloth for a specified amount, and afterwards the yardstick is shortened one half, he will be obliged to deliver only half as much cloth as he

agreed to deliver. Thus he gains, and the other party loses, just in proportion to the shortening of the yardstick.

But if the yardstick should be made twice as long as it was when the contract was made, then the result would be exactly opposite. The debtor would be required to deliver twice as much cloth, and the creditor would receive twice as much as he ought.

So, if a contract is made to deliver a specified number of yards of cloth at a stated time in the future, then a change in the standard of measurement would change the nature of the contract, and one party would defraud the other if the same number of yards should be delivered.

A similar result takes place when the standard of value is changed. If the sovereign authority decrees that a half dollar shall be stamped a dollar, and that it shall be a legal tender for that amount in payment of all debts both public and private, then every creditor will receive just half as much real value as is honestly his due, and every debtor will be relieved of half of what he ought to pay.

It took a long time to establish the fact that governments could not tamper with the coinage without undermining the very foundations of public confidence, destroying the validity of contracts, and legalizing wholesale fraud. Nothing but the practical experience of centuries ever convinced

kings and rulers that something could not be created out of nothing by human power.

Greece, Rome, France, Spain, England, and most other nations, at some time have tried the experiment, and disaster has invariably followed. And it now seems to be an established principle among civilized nations that the unit of measure shall not be changed ; that the standard of value shall not be tampered with ; that contracts shall be considered sacred.

CHAPTER XVI.

THE DOLLAR, OR UNIT OF VALUE.

ANOTHER question which has caused a great amount of discussion is this : whether the unit of measure shall be made of gold or silver. In the United States, as the dollar is the unit of value, some have argued that the unit should be made of silver ; that a certain amount of silver, sufficient to make a coin convenient for use, should be stamped a dollar, and that these dollars should be legal tender for the payment of all debts both public and private ; that the smaller coins should be proportional parts of the unit ; that silver should be the basis of value ; and that the weight and fineness of the gold dollar should be regulated by the price of gold in the market when compared with silver. The objection to this theory is that

silver is too bulky to be made a legal tender for the payment of large amounts; that it is convenient for the fractional parts of a dollar, but that it should not be made the unit of value.

Others have contended that gold should be made the unit for the measure of value; that a certain number of grains of gold should be considered a dollar; that gold should be a legal tender for the payment of all debts; that the standard should never be changed, and that silver should be legal tender for parts of dollars only.

Still others have argued that both should be standards of value. It is said that as we have the rod for measuring land, the yard for cloth, the foot for boards, so we may have the gold eagle as a measure for large amounts, the silver dollar as a measure of less sums, and the copper cent as the measure of the smallest. In this case the amount of indebtedness which could be paid by the cheaper coins should be limited by law, or the transportation might become a burden.

But the objection to this theory of a double standard is that the relative prices of the three metals is continually changing. Hence, the analogy of the rod, the yard, the foot, does not hold good in this case.

After the gold mines of Australia and California were discovered, the relative value of gold, as compared with silver, in the markets of the world, was considerably decreased.

But when the mines of Nevada began to furnish such vast quantities of silver, the effect was exactly opposite, and silver became relatively very much the cheaper metal. Hence, it will be perceived that when there are two standards of value there should be an adjustment of the ratio of quantity whenever the commercial value of the two metals differs essentially from the legal-tender value. Slight differences will not prevent their common circulation. But if there is much discrepancy; if a dollar in silver will pay the same amount of debt as a dollar in gold, and at the same time a dollar of silver can be purchased cheaper than a dollar in gold, then debts will be paid with silver dollars, and gold will be sold to purchase the silver. In other words, the cheaper dollar will in time drive the dearer from circulation.

The weight of a gold eagle in the currency of the United States is 258 grains, nine-tenths pure gold. The weight of the silver dollar is $412\frac{1}{2}$ grains, nine-tenths pure silver. The remaining tenth is composed of an alloy of harder metal. This ratio was established long ago, and was based upon the relative commercial value of the two metals in the markets of the world. But since that time there have been great and rapid changes. Hence there should be a readjustment of the ratio of the weight of gold and silver dollars. The only change necessary is to make the silver

dollar heavy enough to be worth one tenth part of a gold eagle, to limit the amount for which silver shall be a legal tender, to repeal the present law which compels the coinage of 2,000,000 silver dollars per month, and let the coinage be free and unlimited in amount. But if the present law is continued, the silver will drive the gold from circulation.

Seigniorage is the charge which the government makes for coining money. The United States government, and that of Great Britain, coin gold for individuals free of charge; but there seems to be no good reason why the government should coin money for citizens any more than it should make shoes or hats free of charge.

If a small percentage is deducted to pay for coining money, it will be worth more than uncoined metal. Hence, debts due to foreigners will be paid in bullion, and coins will be retained at home. Thus, also, uncoined gold and silver will be used in the arts instead of coin, because it will be cheaper. But if no charge for coinage is made by the government, the mint will be kept at work recoining money a large part of the time.

The theory in regard to coinage, which practice will probably demonstrate, is this: that the mint should be under the direct control of the government; that gold and silver should be coined for individuals when presented in proper quantities; that an amount sufficient to pay the expense of

coinage should be charged by the government; that the ratio between the weight and fineness of gold and silver should be properly adjusted, so that the commercial value and the mint value should be as nearly equal as practicable; that gold should be a legal tender for any amount; that silver should be a legal tender for a limited amount; that all restrictions on the amount to be coined should be removed; and that demand should regulate the supply of gold and silver coins.

CHAPTER XVII.

BANKS.

A BANK is an establishment for the custody, loaning, exchange, and issue of money. As there are four distinct kinds of business done by banks, they are usually divided into four classes.

1. A *bank of deposit* is one in which money is deposited for safe keeping. Very few modern banks, however, confine their business simply to receiving deposits.

2. A *bank of discount* is one from which money is loaned. Usually these two classes are united.

3. A *bank of exchange* is one from which drafts, checks, certificates, and bills of exchange are issued to facilitate the transmission of funds.

4. A *bank of issue* is one from which demand notes are issued and circulated as money.

History of banks. There were banks in ancient Greece and Rome. Their business corresponded very nearly with that of modern private bankers. They received money on deposit, paying a low rate of interest, and loaned it to other parties at a higher rate. They also issued bills of exchange ; but they did not issue demand notes for circulation as money. There was, however, no great banking system like that of the present time.

When civilization was overthrown by hordes of barbarians from the north, the Roman system of finance was destroyed ; and from that time till the twelfth century there were neither banks nor bankers worthy of the name. But when civilization began to revive, the financial system also improved.

The Bank of Venice was established about the middle of the twelfth century. In the year 1156, a forced loan was levied, upon which interest at four per cent was to be paid, and a chamber of loans was established for the management of the debt. This chamber of loans finally became the Bank of Venice, which continued in existence more than six hundred years.

The Bank of Barcelona was established in 1401, and was called the table of exchange. It received deposits and issued bills of exchange.

The Bank of Genoa was established in 1407 ; the *Bank of Amsterdam* in 1635.

All these banks were organized for the purpose

of assisting in the management of the public debt, but they soon became places for the deposit of money by private parties.

Afterward, when those who had money in the bank wished to make payments, they gave orders on the bank, and transfers of credit were made on the books without any payment of money. This was the origin of bills of exchange, drafts, and checks. These were simple orders for the payment of money.

Later, when banks were established in various commercial cities in different countries, debts were paid by means of bills of exchange, in foreign nations, by the aid of banks.

At first, all the coins deposited were kept in the bank, and a small charge was made for keeping the funds, for it was found that the average amount of deposits in ordinary times was about equal to the sum of the withdrawals. And it was also learned, by experience, that loans of deposits could be made for short time, and when emergency came, the loans could be called in without much delay. And thus at length it was found by experience that quite a large proportion of the deposits could be loaned, and an income obtained, without any danger of ever being short of funds to meet the demands of depositors.

Thus it will be perceived that the establishment of banks was the result of an effort to meet a public want.

The Bank of England. The Bank of England was organized in 1694. Previous to the accession of William and Mary to the throne of England, the payment of the national debt was supposed to devolve upon the monarch. But William took a different view of the subject. He assumed that the debt was contracted for the benefit of the people, and should be paid by the people.

Six years after the revolution of 1688 the Bank of England was established, with a capital of 1,200,000 pounds sterling. The capital was all invested in government securities, for which the bank received interest at the rate of eight per cent annually. The bank assumed the responsibility of paying interest on the public debt, for which it enjoyed certain exclusive privileges.

The capital stock has been increased from time to time, but usually the whole has been invested in government securities.

From the time of its organization till the present day the Bank of England has served as a grand regulator of the currency, not only of Great Britain but of the whole civilized world. When gold begins to flow out of England, the rate of interest is increased until the exportation is checked. When specie begins to return toward London the rate is reduced.

Some eminent financiers have contended that there ought to be a mammoth bank in the United States, sufficiently strong to regulate the rate of

interest in this country, and thus prevent the excessive exportation of specie.

For centuries London has been the commercial centre of the business world, and the Bank of England has been the great heart of financial circulation. But some sanguine Americans believe that the time will come when the seat of the financial empire will be transferred to New York. Time and circumstances will determine this question. Financial centres are the results of adequate causes and not of accidental circumstances.

CHAPTER XVIII.

BANKS OF THE UNITED STATES.

SOON after the commencement of the American revolution, Congress began to issue what was called continental money—paper money. This issue was rapidly increased until more than \$300,000,000 were in circulation. The result was what might have been expected. The value of the revolutionary currency decreased until it became almost entirely worthless.

Under such circumstances it became absolutely necessary that there should be some kind of financial legislation to save the colonies from absolute bankruptcy. After considerable delay and a great deal of discussion, the last day of the year 1781 Congress incorporated—

The Bank of North America. This bank was organized with a capital of \$400,000, of which the government subscribed \$250,000. By owning more than half the stock, the government had a controlling interest. The bank was located in Philadelphia, and a charter was obtained from Pennsylvania, in addition to that from Congress. Its circulating notes were made receivable by the government for taxes, duties, and debts due the United States. It exerted an important influence on the finances of the country during the war for independence. Some have even supposed that the war could not have been brought to a successful termination without the aid derived from the Bank of North America.

The Bank of the United States. In December, 1790, Alexander Hamilton, then Secretary of the Treasury, submitted to Congress his celebrated report recommending the establishment of a national bank. The project was strenuously opposed by able men in both houses on constitutional grounds. But in spite of opposition, the Bank of the United States was chartered in 1791, with a capital of ten millions, two millions of which were subscribed by the United States.

The capital stock was payable one fourth in specie, and three fourths in public securities. There were twenty-five directors, one of whom was chosen president.

The circulating notes were redeemable in coin,

and receivable for government dues. It was chartered for twenty years.

The friends of the bank contended that it exerted a beneficial influence in establishing the credit of the United States, and in promoting a stable financial system in the nation. They also asserted that there was ample authority in the constitution for the charter of the banking association, but the enemies of the bank contended that Congress had no authority to grant such a charter, that it established a monopoly injurious to the community, and that it was a constant menace to the liberties of the people.

Politicians, taking advantage of the ignorance of the people in regard to financial affairs, excited the prejudice of the masses against the bank in every way possible. Time seemed to increase rather than diminish the opposition. The result was, that when an application was made for a renewal of the charter, the measure was defeated in Congress, and the bank was compelled to wind up its affairs in 1811, twenty years after its organization.

The average dividend for the whole twenty years which was paid to the stockholders was about eight and one third per cent. At the final settlement, the stockholders received about eight and one half per cent more than the par value of the stock.

The calm judgment of history will probably be,

that this first bank of the United States was well managed by its officers; was profitable to the stockholders; was useful to the government; was beneficial to the people.

But this bank should not be confounded with the one which will next be described, which was very differently managed.

The second Bank of the United States. The charter of the first United States bank expired in 1811. The second war with England commenced in 1812. During this war the finances of the nation became very much deranged, as is usually the case in time of war. It was then argued that another bank must be organized in order to remedy the existing evils. Even some who had strenuously opposed the re-charter of the old bank became champions for the charter of the new. They asserted that the force of circumstances and the logic of events justified their change of opinion and action.

After much debate, in 1816, the second Bank of the United States received a charter for twenty years. Its capital stock was thirty-five million dollars, of which the United States subscribed seven millions, and paid the amount in five per cent government securities.

The bank had branches in several of the large cities. These banks collected the revenue, received the deposits, and paid the debts of the government.

General Jackson and his party opposed the re-charter. Giants in Congress were opposed to each other, but the opponents of the bank succeeded in preventing its re-charter, and it expired by limitation in 1836.

When the affairs of the bank were settled, and its debts all paid, there was nothing remaining for the stockholders. The whole of the capital stock had been lost. The state of the bank was even worse than its most bitter enemies had supposed.

The history of this contest will be found in Thomas H. Benton's *Thirty Years' View*. It is well worth the careful study of every person interested in financial affairs.

CHAPTER XIX.

STATE BANKS.

In the early years of the republic, there was considerable opposition to the charter of national banks by the Congress of the United States. But there was no doubt in regard to the constitutional right of the State legislatures to authorize the organization of State banks.

The first State bank was established in Massachusetts in 1784, only about three years after the charter of the Bank of North America. From that time the number increased rapidly, and soon

they became important factors in the financial system of the United States.

But there were serious objections to these State banks of issue. There was no uniformity. Each State had its own banking law, and each different from every other. In the older States, where the methods of doing business were clearly defined, where capital was plenty, where credit was firmly established, the laws authorizing the establishment and regulating the management of the banks were comparatively strict. But in the newly settled States, where money was scarce, where the rate of interest was high, where prices were inflated, where everything was unstable, where there was a popular demand for an increase of circulation; the provisions of the banking laws were less guarded. The results were what might have been expected. There were numerous failures of the State banks. Even in the most prosperous times, in States where the laws were the most stringent, failures of banks were not uncommon. But in the West and South the failures were far more numerous. The aggregate loss was very great. In times of financial panic the results were extremely disastrous. Stockholders, depositors, and bill-holders were common sufferers. As there was no national supervision of the banks of the United States under the old State bank system, it is very difficult to obtain accurate statistics. But it is stated upon what seems to be good authority that no less than

one hundred and ninety-five failed and became bankrupt between 1811 and 1820. In the crash of 1839-40 about one hundred and eighty banks were totally wrecked, and their circulation became utterly worthless.

These banks were required to redeem their circulating notes at their counters on demand, and were obliged to keep a certain amount of specie on hand, at all times, for that purpose.

But most of the banks were permitted by their charters to issue a larger amount of circulating notes than the total of their capital stock—in some States, three or even four times as much. When public confidence was not disturbed, when there was no special demand for specie for exportation, there was no difficulty in redeeming the notes as they were presented.

But when public confidence was shaken, the people demanded specie for their bank notes. But there was no possibility of meeting the demand. Suspension of specie payments followed, a financial panic was precipitated, the banks failed, and the people suffered.

Thus there was undue expansion, inflation, speculation; and then contraction, collapse, bankruptcy. These were the logical results of such a system of banking.

There was no uniformity of organization of the State banks, because they were established according to the laws of the several States. There could

be no general supervision, for they were local institutions, the general government had no control over them. There was no effectual means of detecting counterfeits, because there were so many different issues that no one but an expert could distinguish the spurious from the genuine. There was no remedy for the depreciation of the value of the circulating notes, for there was no guaranty of final redemption. There was no method of inspiring public confidence in the solvency of the banks, for there had been so many failures that the people distrusted the whole of them. There was no assurance that specie payment would continue, for the amount of circulation greatly exceeded the total capital stock, and a financial panic would at any time precipitate a suspension of specie payment. •There was no uniformity in the value of the bank notes, because no one knew the financial standing of the banks outside of his immediate location; hence there was great difficulty in settling indebtedness between different localities. Bankers sometimes charged a large per cent for exchanging money.

Statesmen and financiers saw all these difficulties, but they did not apply the proper remedies. The evils of the system had grown up with the system, and the great mass of men supposed that they were inseparable from it. Many men feared to place the banking system under the control of the general government, lest there should be too

great centralization of power. Others sincerely believed that Congress had no constitutional authority to establish and control the banking system.

Such was the financial state when the civil war commenced in 1861. In a few months all the banks throughout the country suspended specie payment. The system proved to be inadequate for the emergency. The government needed money for the purpose of carrying on the war, and it was proposed to obtain a large amount through the creation of national banks. A law was enacted by Congress, authorizing the formation of national banks, a certain portion of whose capital stock should be invested in government bonds. And State banks were permitted to reorganize as national banks under very favorable circumstances. At the same time the continuance or establishment of State banks of issue was discouraged, by rendering them unprofitable to their stockholders.

The government having the constitutional right of taxation, a tax of ten per cent was levied on all the circulating notes issued by the State banks. The effect of this was to cause all these banks to close up their affairs, and to give up their charters, or cease issuing circulating notes; or to reorganize as national banks. But the banks were allowed so favorable terms for changing their charters, that the most of them were very glad to reorganize under the national banking act. Had the change been made during a time of peace, it might have

produced prolonged discussion in regard to the constitutional right of the general government to control the banking system. But the people were so interested in the war and the events connected with it, that they troubled themselves very little in regard to the question whether the State or the nation should have control of the banks.

In this way, the control of nearly the whole banking system was transferred from the States to the general government, with scarce any opposition.

In some States, banks are still organized under State laws, but they do not issue and circulate notes. This is specially true in the State of New York.

As the national debt and the amount of government bonds diminishes, as the premium on the bonds becomes greater and the income less, the tendency to organize under State authority will become stronger.

And it may be well to remember that the only restriction upon the State banking system would be removed by the repeal of one clause of the internal revenue act. Let the tax on the circulation of the State banks be removed, and there would be danger of a return to the old system, because it is thought that banking under most of the State laws, provided that the banks could issue circulating notes without taxation, would be more profitable than under the national banking act.

But those who remember the inconveniences, the disadvantages, the losses incident to the old system of banking, will not care to see it again established in this country.

CHAPTER XX.

SAVINGS BANKS.

BANKS of loan have always been considered commercial institutions, designed to aid business men in financial affairs. One very important use of these banks is to receive the surplus money of the business men of the community, and loan as much as they can spare safely to those who need it. In ordinary times the average amount of daily deposits is about equal to that of the withdrawals. And the best financiers usually consider that about two thirds of the deposits may be safely loaned, provided that the loans are for a short time, on personal security, which can readily be converted into money if payments are not made at maturity. Thus, through the agency of the banks, a large share of the surplus money of the community may be collected, and about two thirds of it used. In this way the banks receive interest on a large part of their deposits, and business men are accommodated with loans when they need money.

But the depositors receive no interest ; and they do not expect it, because the money is placed in

the banks for a few days only, and for the depositor's convenience. The arrangement is satisfactory and advantageous to both parties.

But these banks have been found mainly serviceable to business men. If laboring men have more money than they need for immediate use, they wish to place it where they can obtain a reasonable amount of interest. Banks of issue and discount have never met this demand of the laboring classes.

To supply this want, savings banks were organized toward the close of the eighteenth century. These banks were designed to receive small amounts and pay interest on balances, compounding the interest periodically, if left in the bank. Small amounts were received in order to induce laborers to save the surplus of their wages. *Interest* was allowed on small sums in order to induce them to deposit their earnings where they would accumulate. *Compound interest* was allowed in order to induce them to leave the money in the bank a long time, on account of the more rapid increase by compounding.

The first bank of this kind was organized at Hamburg in 1778; the next at Berne in 1787.

Savings banks were first established in England early in the present century.

The first savings bank in the United States was established in Philadelphia in 1816; the next in Boston the same year; the next in New York in

1819. Since that time their number has rapidly increased.

Some of these savings banks are organized under general laws permitting their establishment. Others have charters granted by the State legislatures, allowing them to enjoy special privileges, and compelling them to conform to certain rules and regulations. But all the savings banks of the United States are established in accordance with State legislation, are subject to State supervision, and are controlled by State authority. Hence, while they possess the same general features, they differ in some minor characteristics.

They receive small amounts, sometimes as small as five cents. They loan money on ample security, largely on mortgages. They declare dividends semi-annually, some even quarterly. They compound the interest whenever a dividend is declared, provided that it is left in the bank. They give a pass-book to each depositor, which must be presented when a deposit is made or money is withdrawn, in which there is a record of every debit and credit transaction. The record in the pass-book is a duplicate of the account with the depositor in the books of the bank. Notice may be required from the depositors when money is to be withdrawn.

These banks are organized by corporators, managed by trustees, and owned by the depositors.

They have usually been well managed, and have

been very beneficial to the laboring classes where they have been located.

In Great Britain a system of savings banks is connected with the post-office department, which has proved to be a great convenience and benefit.

Efforts have been made in the United States Congress to establish a similar system in this country. No doubt it would be beneficial to the laboring men and women of the nation ; and an expression of public opinion, in the form of petitions, should be placed before Congress, so that our legislators may understand the wishes of the people. Such banks would be absolutely safe and extremely convenient.

The amount to be deposited at one time should be limited, and the maximum by each depositor should also be limited.

Every post-office above a certain grade should be a government savings bank. Money deposited in one office should be payable at any other. Sufficient notice should be required, so that money could be obtained from other offices when necessary.

The objection has been made that such a system would injure the existing savings banks ; but well-informed business men think that there is nothing to fear from this cause.

CHAPTER XXI.

UNITED STATES NATIONAL BANKS.

The principal corporate powers of national banks, granted by the national banking act, are as follows :—

1. To adopt and use a corporate seal.
2. To have succession for twenty years.
3. To make contracts.
4. To sue and be sued.
5. To select directors and other officers, and define their duties.
6. To adopt by-laws not contrary to the banking laws.
7. To discount notes ; to receive deposits ; to buy, sell, and exchange coin and bullion ; to loan money ; to obtain and issue circulating notes.

Organization of National Banks. 1. Articles of association must be drafted and approved by the Comptroller of the Treasury.

2. The capital stock must be subscribed.
3. The stockholders must choose a board of directors, not less than five in number.
4. The directors will select one of their number for president, and appoint other necessary officers.
5. The officers will purchase a certain amount of interest-bearing government bonds, and deposit them with the Treasurer of the United States at Washington.

6. The Comptroller of the Treasury will return to the bank ninety per cent of the par value of the bonds in unsigned bank notes, upon which there is a certification that bonds are deposited in the Treasury to secure their redemption.

7. These notes may then be signed by the president and cashier and circulated as money.

Banking is free. There is no monopoly of privileges; no charter to be secured; no legislation necessary. Any five citizens, by conforming to the provisions of the general banking law of the United States, may form a banking association at any time.

Any person may become a stockholder of a national bank by subscribing for a share of the capital stock when a bank is organized; or he may purchase stock at public or private sale, just as freely as he can purchase merchandise. Any man, woman, or child who has a hundred dollars may buy a share of bank stock and thus become a stockholder. Hence the charge that the banking system is a monopoly is unjust and untrue.

Capital Stock.—The capital stock of a national bank cannot be less than two hundred thousand dollars in cities of fifty thousand inhabitants; and not less than one hundred thousand in cities of less than fifty thousand inhabitants. But there is a provision in the banking law that the Secretary of the Treasury may authorize the organization of a bank with a capital of not less than fifty

thousand dollars in any city or town with less than six thousand inhabitants, if he thinks the wants of the public demand its establishment.

At least half of the capital must be paid in before commencing business; and the remaining portion must be paid in at the rate of not less than one fifth monthly. No increase nor decrease of the capital can be made without permission from the Comptroller. The capital stock is divided into shares of one hundred dollars each. Each share entitles its holder to one vote for the choice of directors, and in regard to other matters which may properly come before the stockholders. Each shareholder is responsible for the debts of the bank to an extent equal to the amount of his stock. In other words, a holder of bank shares is liable to lose his stock and an equal amount of his private property, if necessary to satisfy the demands made by the creditors of the bank.

Should the capital stock become impaired, by losses or otherwise, it must be made good by an assessment on the stockholders, within three months after notice is received from the comptroller.

Each bank is required, before making a dividend, to set aside as *surplus* one tenth of the net earnings since the last dividend. This surplus must be set apart whenever a dividend is made, until the amount is equal to one fifth of the original capital. This can be used for ordinary banking

purposes, but can *not* be taken for the payments of dividends. It can be used only to charge off losses. Thus it will be seen that careful provision is made for strengthening the bank by providing for a large amount of surplus capital. Ample authority is given the Comptroller to insure the fulfilment of all these conditions in regard to capital stock, so that it is practically impossible to organize a national bank upon fictitious capital, as was sometimes done under the State banking system.

Directors. — The shareholders choose a board of directors; not less than five in number, each of whom must be a citizen of the United States; and three fourths of whom must be citizens of the State where the bank is located. Each director must own at least ten shares of the capital stock of the bank. To all these things he must make oath, and also make and transmit to the Comptroller an oath that he will faithfully administer the affairs of the bank, and that he will not knowingly violate, or permit to be violated, any of the provisions of the Banking Act.

The directors select one of their number for president, also appoint a cashier and other officers. All the affairs of the bank are managed by the officers subject to the board of directors. Hence the reason for having each pecuniarily interested by owning at least ten shares of the stock.

They are required to be citizens of the United

States to prevent foreigners from controlling our banking system.

Deposit of Bonds. — Each bank is obliged to deposit with the Treasurer at Washington a certain amount of interest-bearing United States bonds. These are marked as the property of the bank, registered in the books of the Treasury department, placed in the Treasury, and examined twice a year by an agent of the bank. The Comptroller sends to the officers of the bank ninety per cent of the par value of the bonds, in unsigned bills. The bonds are the property of the bank, but are deposited with the United States as security for the redemption of the circulating notes. The Treasurer forwards to the bank a check for the interest when due.

If the bank fails to redeem its notes, the government sells the bonds and redeems them, so that no loss can be sustained by the bill-holders. If a bank fails and becomes bankrupt, its circulating notes are perfectly good, because they will be redeemed by the United States government. Hence, during more than twenty years, since the National Banking Act was passed, not one dollar has been lost by bill-holders on account of the failure of a national bank. But under the old State banking system, millions were lost, by bank notes becoming worthless in the hands of the holders, mostly the poorer class of persons.

Hence it will be readily perceived that the de-

posit of bonds for the security of the bill holders is a very important feature of the Banking Act.

But it has been asked what will be done when the debt of the United States is all paid. Then of course there will be no United States bonds to deposit. They are already becoming scarce, and the income from them is very small at the present market value.

In answer to this question, it may be said, Let the banks deposit other securities, ample in amount, and satisfactory to the Comptroller, instead of United States bonds. Then we shall have a paper currency based on real value.

Legal Tenders.—Every national bank is required to receive at par the notes of any other national bank in payment of debts. They are receivable by the government for all taxes and other dues, except duties on imports, and are payable by the government for all demands except interest on the public debt.

It has sometimes been asked why these exceptions should be made. The reasons are obvious. In order to facilitate the sale of the government bonds, it was necessary to make them desirable as an investment not only to citizens of our own country, but to foreigners as well ; and therefore the interest was made payable in a currency stable in value and good in any country, that is, in specie. And in order to obtain coin for the pay-

ment of interest on the public debt and of the government employés in foreign countries, it was provided that the duties on imports should be collected in specie.

Redemption of Circulating Notes. — 1. Every national bank must redeem its notes at its own counter in lawful money, at par, on demand.

2. The notes of all closed banks must be redeemed by the Treasurer of the United States.

3. All worn, mutilated, or defaced notes may be forwarded to the Treasury, for redemption, by an assistant treasurer.

4. Bank notes in sums of one thousand dollars, or any multiple thereof, will be redeemed by the Treasurer whenever presented.

This system of redemption renders the circulating notes of the national banks always equal in value to Treasury notes. It also serves to keep the circulating notes whole and clean. When there is no suspension of specie payments, these bank notes will be at par with coin, and will be equally valuable in any part of the nation.

Destruction of Notes. — Notes of closed banks, and mutilated notes, redeemed by the Treasurer, are destroyed in presence of an agent of the Secretary, the Treasurer, the Comptroller, and the bank. And their destruction is certified by each of these four men.

Loans. — National banks are prohibited from loaning money, —

1. On real estate security.
2. On security of their own capital stock.
3. On security of bank or treasury notes.

No bank is allowed to loan to any one party an amount greater than one tenth of its capital stock.

Statements.—Detailed statements of the condition of each bank must be made to the Comptroller at least five times a year. These statements must be verified by the oath of the president or cashier, and attested by three of the board of directors. They are also required to report to the Comptroller, twice a year, the amount of dividends declared, and the amount of profits in excess of dividends. Special agents of the Comptroller examine the banks when thought necessary.

Taxes.—The national banks pay to the United States government a tax of one per cent upon the average amount of their circulating notes, and they are also subject to local taxation, like any other corporation.

NATIONAL DEPOSITORIES.

These banks are also employed as financial agents of the United States government where there is not a sub-treasury. They receive and pay out money for the government.

Such is a brief explanation of the national banking system, as condensed from the Report of the Comptroller of the Currency.

The design of the law is that the banks shall

be safe, strong, conservative associations ; that they shall be profitable to the shareholders, beneficial to the community where they are located, and co-operate with the government whenever financial aid is needed. The system embodies the condensed experience of the bankers of all past ages ; and is pronounced, by those capable of judging, the best system of banking which the world has ever known.

It is certainly to be hoped that this nation will never return to the old State banking system, with all its disadvantages, defects, risks, and losses.

CHAPTER XXII.

TREASURY NOTES.

BESIDES coin and bank notes there are now in circulation, in the United States, treasury notes, which are commonly called by the people, "Greenbacks," because the backs of the notes are green. These were issued during the civil war to meet a pressing necessity. When the banks closed their vaults, and were unable to redeem their notes in specie, gold and silver were hoarded and exported. Coin ceased to circulate as money, and was bought and sold in the market. The first effect was that small coins disappeared, and there was an absolute necessity for some kind of currency to represent parts of a dollar.

To supply this demand the government issued fifty millions of fractional currency. This was paid out from the Treasury to meet the public expenses, and went into circulation among the people.

But the wants of the government enormously increased. An army had to be raised, armed, equipped, clothed, fed; a navy had to be created, and numerous other payments had to be made. For these purposes there was need of more money. Specie ceased to be a circulating medium, and in its place was left a vacuum. The banks could not safely supply the demand. Hence, from time to time, the government issued treasury notes with which to pay the enormous expenses. These notes were simply promises that the government would pay the bearer so many dollars,—not at a certain time, not on demand,—but simply that it would pay. In order to cause these notes to circulate freely, they were made legal tenders for the payment of all demands both public and private, except interest on the public debt and duties on imports.

These treasury notes were issued to meet a special emergency, and ought to have been redeemed and destroyed when the emergency no longer existed. They were necessary for the successful prosecution of the war, but should have been gradually withdrawn from circulation when the war ended. They served a useful purpose

during the dark days of the rebellion, but they should have disappeared with the other extraordinary circumstances connected with it.

After peace was established, a law was enacted directing the Secretary of the Treasury to redeem and destroy \$4,000,000 of these treasury notes every month. But soon there was a clamor from the speculators, and the destruction was suspended. This rendered the return to specie payments vastly more difficult. The bank notes were all redeemable in lawful money — greenbacks — and the greenbacks were payable in specie. Hence the whole weight of resumption rested upon the United States Treasury; therefore it was necessary that a vast amount of coin should be accumulated in the vaults of the Treasury before resumption could be safely attempted. And now it is equally necessary to keep a large balance on hand continually, in order to prevent a suspension of specie payments by the United States Treasury. This would be a national disgrace, as well as a public calamity.

While we export more commodities than we import; while the balance of trade is in our favor; while specie is flowing into the United States, — there can be no difficulty in maintaining specie payments. But let the balance of trade be against us; let bankers and brokers find it profitable to export coin, — and there will be a demand for the redemption of the outstanding paper currency.

There will be none too much reserve to meet the emergency.

There is now in circulation about \$350,000,000 in treasury notes, and about an equal amount of national bank notes, all redeemable by the United States, and there must be many millions of specie in the Treasury when payment is demanded.

When these treasury notes are redeemed and destroyed, this immense accumulation of coin can be used for the payment of the public debt. The management of the government finances will then become vastly more easy. It will be necessary simply to levy a tax sufficient to pay the fixed charges and the current expenses of the government, and pay the bills when they become due.

There will be no fear of a suspension of specie payment, and no hoarding of coin to meet such an emergency.

But it may be asked, "Who will supply the deficiency in the paper currency produced by the redemption and destruction of the greenbacks?"

The answer is obvious: the demand will produce a supply. Let the withdrawal of the treasury notes from circulation be gradual, and there will be an expansion of the national bank circulation sufficient to meet the wants of the people without any disturbance of our financial system. Let the banks issue all the paper currency, and let every paper dollar be secured by the deposit of ample security in the United States Treasury, then

we shall have a financial system which will be stable.

But it is sometimes argued that the government saves paying interest on these treasury notes while they are circulating as money. This is true; but such an advantage will not compensate for the disadvantages, the risks, and the perils of irredeemable paper.

It will be remembered that these treasury notes are issued by the government in payment for supplies or services. They are merely evidences of debt, secured by nothing except the promise of the government to pay the bearer. But there is no legal power to collect a debt due from the United States.

Then, also, there is no limit to the amount of treasury notes except the votes of politicians. The amount may be increased or diminished without any regard to the financial wants of the country, whenever it will favor the dominant party. If money can be manufactured by printing pieces of paper, there is great danger of an over-issue, so that there will be depreciation of value.

Treasury notes are sometimes necessary in an emergency, but they should be withdrawn from circulation as soon as practicable after the emergency is passed.

CHAPTER XXIII.

EXCHANGE.

EXCEPT in case of primitive barter, there can be no exchange of commodities without some measure of value and some medium of exchange.

The nature and uses of three classes of these mediums have already been explained, namely :—

1. *Specie*, or *coin*, which is the prime measure of value, and is recognized as a medium of exchange throughout the civilized world.

2. *Bank notes*, which are used as substitutes for coins, and are representatives of real value.

3. *Treasury notes*, which are promises of the government to pay the bearer real value, when presented at the treasury.

These are now used interchangeably as money in the United States. But there is not sufficient currency to meet the demand for mediums of exchange for the vast amount of daily commercial transactions. It would be absolutely impossible to transact the business of a single day if the money value had to be actually passed from debtor to creditor in every case. Hence, other methods have been employed, other mediums of exchange have been devised.

Book Accounts. Men frequently need merchandise when they have neither coin, bank notes, nor treasury notes. In such cases commodities are

obtained on verbal promises to pay. The purchaser buys the goods, the creditor makes a charge in his books, and the money or some other commodity is paid by the debtor at the time agreed.

The medium of exchange in this case is the verbal promise of the debtor. The aggregate of such transactions is enormous. It is a convenient method of doing business, provided that the creditor is not in immediate need of the pay for his merchandise. But if he does need his pay before it becomes due, the account is not in proper form to sell readily to a third party. This cause produced its legitimate effect centuries ago, and led to the adoption of

Promissory Notes as a medium of exchange.

If a man wishes to purchase commodities, he may write, sign, and deliver to the creditor a promise to pay to him or his order a specified sum of money, at a stated time, or on demand, with or without interest, in exchange for the merchandise. This note then becomes the medium of exchange just as really as so many dollars in coin or bank notes. Such a note has a legal, commercial value. It is negotiable. It can be sold in the market. If the owner wishes to make use of the money before the note becomes due, he can dispose of it as he would any other property. Hence, *written* promises are better than *verbal* as mediums of exchange. They are not money, for they cannot be passed at their face

value. They are not a legal tender, but they serve as mediums of exchange. Several technical terms are used in respect to notes, which may be explained here.

The maker of a note is the one who promises to pay the amount stated.

The payee is the person to whom the money is payable.

The holder is the person in whose possession it is legally held.

Checks. Book accounts and promissory notes are inconvenient. Men wish to receive for commodities money or something as good as money. So business men deposit their funds in some convenient bank, and when they wish to purchase merchandise they give an order to the other party to obtain his pay from the bank. This order for the payment of money is called a check.

The one who makes and signs the order is called the *drawer*.

The one who is directed to pay the money is called the *drawee*.

The one to whom it is made payable is called the *payee*. If the payee makes the order payable to another by writing across the back, he is called the indorser. The new payee is then called the indorsee.

Certified Checks. Checks of individuals are good, provided that the drawer has the amount of funds in the bank. But the bank is only an

agent, and will simply pay out the money of the depositor. Hence, in large transactions, most men prefer to know that the check will be cashed when presented. This is done in a very simple manner. The check is drawn like any other check, carried to the bank and stamped "certified," with the name of the bank and the date. This certification makes the bank responsible for the payment of the check when presented. Certified checks are considered preferable to uncertified ones, because the bank is responsible for their payment.

Certificates of Deposit. But sometimes a man wishes to send money to another person at a distance when he has no funds on deposit in the bank. In that case he cannot draw a check and send it away to pay the debt; and he may not care to open a regular bank account. Under such circumstances he goes to the bank, deposits his money, and receives a "certificate of deposit," stating that he has deposited a certain amount of money in the bank, payable, when presented, to the person named. The bank is then responsible for the payment.

Cashier's Drafts. There is still another method. If a person wishes to pay a debt in another city, he may step into a bank and buy a "cashier's draft," which is an order from one bank directing another bank to pay to a specified individual the amount of money named. These cashier's drafts are negotiable anywhere, because the bank

which issued them is responsible for their payment. Thus, banks furnish facilities for balancing the accounts between different localities.

Drafts. If a merchant in Boston owes a thousand dollars to a man in New York, and another man in New York owes the merchant in Boston a thousand dollars, and both amounts are due the same day, the merchant in Boston writes an order addressed to his debtor, telling him to pay the thousand dollars to his creditor, and charge the same to his (the Boston man's) account. He sends this order to his creditor, who collects the money from the debtor. Thus the debts are cancelled, and no money is transported. Such an order is a little more formal than a check, and is called a draft. But it has the same nature and use. If the drawer and drawee live in different countries, the order is still more formal, and is called a bill of exchange. But it does not often happen that a man will have a debtor and a creditor for the same amount due at the same time, and both persons living in another place near each other. Hence, for a large part of the exchanges, other methods must be adopted.

The aggregate annual exchange of commodities between two great neighboring cities is sometimes enormous. Hence a large amount of indebtedness will naturally mature in each city every day. If the debts of one city equal those of the other, no currency need be transported, provided that some

means can be devised for cancelling the common indebtedness. This important service is performed by the banks located in the two cities.

If a merchant in Boston wishes to collect a debt, which is due him in New York, he draws a sight draft on the debtor for the amount. A bank in Boston takes the draft, gives the merchant credit for it, forwards it to a bank in New York, and debits the bank for the amount. The New York bank collects the money, and credits the bank in Boston.

What is true in this case is applicable to all other Boston creditors of parties in New York. Thus all the debts due in Boston from individuals in New York may be changed, by means of drafts, to deposits in the banks of Boston.

In the same manner all the debts due from Boston to New York parties may be changed to deposits in the banks of New York. If the indebtedness is equal, then the debits will just cancel the credits. The drafts serve as mediums of exchange without any transfer of currency.

But if Boston buys more of, than it sells to, New York, then the balance of trade will be in favor of New York. When the debts mature, Boston will owe New York more than New York will owe Boston. The difference must be paid in currency. Suppose the balance of trade is one hundred thousand dollars, and then suppose that drafts should be drawn in each of the cities for the whole

amount of indebtedness, then there would be one hundred thousand dollars worth more of drafts in New York than there would be in Boston. In New York, therefore, there would be more than enough to meet the demand, and they would be cheaper; while in Boston there would not be enough, and they would be worth more than the face value. Thus it will be perceived that these various forms of business paper, representing the *credit* of individuals or corporations, are used extensively as mediums of exchange, and are employed by means of the banks to cancel almost an incredible amount of debts annually.

Now what is true in regard to the case supposed is applicable to all the world. The unit of currency is always the measure of value; but it is seldom the medium of exchange except to adjust the balance of trade.

Many other things might be written in regard to exchange, but the above is thought to be sufficient for an elementary treatise.

CHAPTER XXIV.

RENT.

MUCH has been written in regard to rent. But it is not the province of an elementary treatise to discuss disputed questions, or investigate exploded theories.

Considering the views of Ricardo as substantially correct, the object of this chapter will be to make the subject as plain and simple as possible, regarding Ricardo's theory as the basis of the explanation.

Rent is the compensation paid or received for the use of real estate.

Rent is composed of three elements.

The first is for the use of the betterments, which have been produced by the employment of labor. If a person erects buildings, makes fences, clears the forest, ploughs the ground, cultivates the soil, he ought to receive compensation from the man who enjoys the use of these betterments. This is an important element of rent.

The second is that which results from the difference in the productive power of the soil.

When a new territory is discovered, no one owns the soil. That which will produce most with the least labor is first occupied, provided that all other circumstances are equal. As long as there is land enough of the first quality to be obtained without cost, no rent will be asked or paid, except for the use of the betterments which have been made. No man will rent land while he can obtain all he needs, of the same quality, without price.

But when all the land of the first quality is preëmpted, then that of the second quality must be occupied. This second quality, not being so

fertile, will produce less with the same amount of labor.

The second element of rent is this *difference of productiveness*.

It has been explained in the following manner : If an acre of land, of the first quality, produces ten bushels more corn annually than an acre of the second quality, with the same amount of labor, then the yearly rent of the first acre should be ten bushels of corn, as long as the second acre can be obtained for nothing.

But when all the land of the second quality is preëmpted, then that of a third quality must be occupied. A certain amount of rent will then be demanded for the second quality, and a higher rate than before for the first.

Thus if the third quality produces ten bushels less than the second, then the rent of the second will be *ten* bushels annually, and that of the first, *twenty* bushels.

And so it will be until all the land which can be obtained for nothing is taken. As the population becomes more dense, as the demand for homesteads becomes more imperative, less productive soil will be occupied, and the rent of the better portions will be correspondingly increased.

This is the general theory of rent, as produced by a difference of productiveness of the soil. There are many limitations and many exceptions, which need not be explained.

The third element of rent is that which is caused by a difference in location. Every one knows that the rent of real estate in New York city is more than the rent of similar property in a country village. This may be illustrated in the same way as the second element.

While every tract of land needed is equally well situated, there can be no rent on account of difference of location. But when all that which is most favorably located is preëmpted, then new settlers must be content with less desirable places or pay rent to their more fortunate neighbors. Thus it will be perceived that location is an important element in the rent of real estate. This will explain the reason for the rapid advance in the price of real estate when a place in a new territory becomes a railroad centre. It will also account for the wonderful rise in value of land in our newly-settled western States. The frontier line has moved so rapidly, and civilization, with all its conveniences has kept so near to it, that this element of location has produced an important difference in the value of land in a short time. Land which to-day may not be worth a dollar because there is no market for its products, in a single year may become desirable and valuable on account of a railway constructed near it.

These are the three principal elements of the rent of real estate. The value of real estate depends upon the amount of income to be derived

from the rent. In other words, rent is the measure of the value of real estate.

Reverse the cause of the increase, and there will be a *decrease* of rent and value.

CHAPTER XXV.

INTEREST.

INTEREST is the compensation paid by the borrower to the lender for the use of money.

During the dark ages the practice of receiving interest was considered immoral.

Those who loaned money for a valuable consideration were persecuted and accounted enemies of mankind.

The early statutes of Great Britain declared that interest was illegal. This shows the ignorance of the men of those times in regard to the first principles of political economy. Such laws strike at the very foundation of public prosperity. The principal incentive to industry and economy is the hope of obtaining a competency, so that the person may retire from active business and enjoy the fruits of previous labor. Once establish the principle that no man shall receive interest for the use of money, and general stagnation of business will speedily follow.

A person should receive compensation for the

use of money for the same reason that he should for the use of any other commodity. Money is either value or the representative of value. Hence it may be exchanged at pleasure for any other kind of property. There is no income from money while it remains money ; but he who borrows it expects to exchange it for productive property.

If a man occupies a farm belonging to another, he expects to pay for the use of it. But if he obtains money from a third party and purchases the same farm, he should pay for the use of the money because he will not pay rent for the farm. In this case the money which he borrows represents the value of the farm which he purchases. He avoids the payment of rent by the payment of interest. So it is in every case. The borrower exchanges his loan for property which he supposes will be profitable. Hence it is reasonable and right that he should pay for the use of the money.

Frequently a loan is a benefit to both parties. An aged person, a widow, an orphan may have property, but may not possess the ability to employ it profitably.

In the vicinity there may be a person who has health, strength, skill, ability, but no capital. He hires money from some one who does not care to use it, and pays a just compensation. He employs this borrowed capital in some profitable business, pays the interest, and has a margin left sufficient to reward him for his labor and trouble. In such

a case the loan is a benefit to the borrower and lender.

The foundation of many a fortune has been established upon borrowed capital. Thousands of men, women, and children derive their means of support from the income received from the loan of money.

But it frequently happens that lenders and borrowers may not live in the same vicinity. In older communities, where capital has been long accumulating, lenders of money are usually more numerous than borrowers. But in newly-settled places the number of borrowers generally exceeds that of the lenders. Now it is very desirable that there should be some responsible agency for effecting the loan of these surplus funds. This is done by means of the banks. They take the capital which would otherwise remain idle, and lend it to those who can employ it profitably. Thus it will be perceived that the banks are just as necessary in bringing together borrowers and lenders as merchants are in effecting exchanges between manufacturers and consumers. The manufacturer does not care to leave his work and peddle his merchandise. He disposes of his goods to men whose business is to buy and sell. These merchants are acquainted with the manufacturers and consumers. They know the state of the market, and the prospect for the future. They make the distribution of merchandise a specialty, and consequently they

can do the work cheaper and better than the manufacturers.

Now, the banks occupy the same position in regard to the borrower and lender as does the merchant in respect to the manufacturer and consumer. Both are indispensable in an advanced stage of society.

CHAPTER XXVI.

TAXATION.

THE primary object of government is the protection of life and property. For this purpose laws must be enacted and enforced ; legislative, executive, and judicial departments must be maintained ; foreign invasion must be repelled ; internal anarchy must be prevented ; an army and navy must be organized, armed, fed, clothed, paid. These are direct and essential objects to be accomplished by government.

But besides these there are numerous others which have an indirect influence almost as important, such as the carrying of the mails, the improvement of rivers and harbors, the pensioning of disabled soldiers and sailors, the support of poor and unfortunate persons, the education and enlightenment of the common people. These and many other things must be done by the govern-

ment, in order that it may effect the objects for which governments are established.

But these things cannot be done without expense. Hence there must be some means of securing a revenue, some method of replenishing the treasury. No form of government can be stable without a permanent income. This is generally obtained by some system of taxation.

Governments exist primarily for the protection of life and property, and the expenses ought to be borne by the persons and property protected.

In regard to the truth of this proposition, there can be no question. But as to means and methods, difficulties are encountered at the very threshold of the subject.

The first question which presents itself is this : What proportion of the expense shall be paid for the protection of life, and what for the security of property ? Shall the ratio be according to the relative value ? But who can estimate the commercial value of human life ? Objects must have properties, qualities, or attributes in common, if there is to be any proper comparison. And what ratio can there possibly be between the value of life and property ?

The question also arises, whether all persons shall be taxed alike, or whether there shall be discrimination ; whether women and children shall be exempt, or whether there shall be no exception in their case ?

Theory, as usual, fails to meet such difficulties. Logic does not answer such questions. The experience of practical men alone can furnish a solution of such problems.

The conclusion in this country is, that rather a small portion of the expense for maintaining the government should be equally assessed on the male members of the community, who have reached a certain age, and that the remainder should be paid by the property protected.

Theory would seem to indicate that the poll tax should bear a larger proportion of the whole amount to be levied, but experience is a better schoolmaster than theory, especially in regard to questions of political economy.

The tax for the protection of the person is called poll tax.

As to the collection of the government revenue from *property*, many theories have been advocated and tried. But they may all be classed under two general heads. The first and most natural method seems to be that of

Direct Taxation. Direct taxation is levied directly on the person who has to pay it,—as a tax on incomes, on houses, on furniture; and if not paid, the property can be sold to pay the tax. This method would seem to be very simple and easy. The assessors are to ascertain the amount of tax to be collected, then make out an inventory of the property to be assessed, and then let every

dollar in the inventory pay its proportion of the tax to be levied. Theoretically there can be nothing easier.

But even here are difficulties. The question meets us at the very beginning, What shall be placed in the inventory for taxation? Shall the levy be on wealth or on capital? If the answer is wealth, then shall there be any exemptions, or shall every article of commercial value be taxed? Shall pictures, paintings, statues, books, furniture, clothing, jewelry, be placed in the inventory for taxation, or shall the people be encouraged to procure those things which tend to raise them to a higher state of civilization, by exempting articles which have a refining and elevating influence?

On the other hand, the question may be asked with equal propriety, Shall the last cow of a poor widow, the house not yet paid for, the farm which is mortgaged for as much as it is worth, be taxed, or shall they be exempt? Such are some of the difficulties if we make *wealth* the basis of taxation.

But some contend that *capital* only should be taxed. Then the question immediately arises, Shall the levy be on productive or unproductive capital? Theory might answer, Let the productive capital pay the tax; let the unproductive go free; let there be a tax on income.

But experience has demonstrated that this method of collecting revenue is the most objectionable which has ever been tried in this country.

Thus it will be perceived that there are difficulties to be met in levying even a direct tax.

The result is, that various methods, not differing essentially, have been adopted in different localities, to meet the varied circumstances. The rule seems to be, that all property protected should be placed in the inventory for taxation, unless some good reason can be shown for exemption.

In other words, taxation is the rule ; exemption the exception.

Municipal governments are generally supported by direct taxation ; national, by indirect.

Indirect taxation is a duty levied on articles before they reach the consumer, and may be classed under two general divisions — excise tax and customs duties.

Excise is a duty levied on articles produced and consumed in the country, and on licenses to deal in certain commodities. It is collected from the manufacturer or producer.

Customs duties is the tax levied on commodities imported from abroad, and is collected from the importer.

The income for the expenses of the national government are derived from customs duties and *internal revenue*.

Internal revenue includes both excise and direct taxes.

It is collected from citizens, on personal incomes and property, on legal papers, on manufactured ar-

ticles, on agricultural products, and on numerous luxuries and necessities. It is sometimes obtained by the sale of stamps to be attached to legal documents or packages; sometimes by the sale of licenses for persons to engage in certain occupations, and by various other devices.

But these methods of obtaining a revenue have always been unpopular in this country, and have seldom been resorted to in time of peace.

During the civil war, when the object was to obtain as large a revenue as possible, in order to meet the enormous expenses of the army and navy, taxes were levied wherever they could be collected. Luxuries and necessities alike were taxed, regardless of the theory that the latter should be exempt. But since the close of the war, the internal taxes have been gradually removed, until there are now only a few articles subject to the internal revenue tax. The greater portion is collected from spirit, malt liquors, and tobacco in its various forms.

The question in regard to securing a revenue from taxation on imports has already been discussed in a preceding chapter.

CHAPTER XXVII.

PROFIT.

PROFIT is pecuniary gain derived from any occupation or business.

Profit should be distinguished from rent. If a man owns a farm and does not care to cultivate it, he may let another person occupy it, and charge a certain amount for its use. This compensation is called rent. But if the owner himself occupies the farm, whatever gain he may derive from its cultivation is called profit.

Thus money received from another for the use of real estate is called rent. Money gained by occupying real estate is called profit.

Profit should also be distinguished from interest. A person who has money which he does not care to use in any business enterprise usually loans it to some one who can employ it to advantage, and he charges a certain percentage for the accommodation.

This payment from the borrower to the lender is called interest. But if a man employs his money in trade or speculation, the gain derived from using it is called profit.

Thus, compensation for the use of money is styled interest; gain derived from using money, profit.

Profit should likewise be distinguished from wages.

A person who works for another, and receives a definite payment for his service, is called a laborer, and the compensation which he receives is called wages. A person who engages in business for himself, and depends upon his gains for an income, is called a proprietor; and his net gain is called profit.

Thus, money received for laboring for another is called wages; money received for laboring for one's self is called profit.

These distinctions are plainly marked, and should be clearly understood.

A distinction should also be made between gross profit and net profit. Gross profit is total gain before expenses and losses have been deducted. Net profit is balance of gain after expenses and losses have been subtracted. Frequently there is considerable difference between these two amounts. Many a man has engaged in business and made large gains; but after paying charges for tax, rent, interest, insurance, labor, etc., and making sufficient allowance for bad debts, he has found his net profits less than nothing. It should be remembered that the expense account makes an important difference between gross and net profits.

There is also a distinction between profit and dividend, which it may be well to notice. As society advances, many important improvements

are needed, which no individual is willing and able to undertake alone and unaided. Hence, men unite their capital, and form associations for the accomplishment of such enterprises. These are commonly called companies or corporations. The design is to benefit the public, and to secure a reasonable amount of profit on the investment. The stockholders choose a board of officers, who manage the business and periodically divide the whole or part of the net profits among the shareholders.

Thus the gains of a corporation are properly called profits, but that portion of the net gain periodically divided among the owners of the stock is called dividend, to distinguish it from the undivided surplus. In other words, gain undivided, on the books of a company, is called profit ; gain divided, dividend.

Amount of Profits.—There are numerous circumstances which exert an important influence in determining the amount of profit to be derived from any business or occupation. If a man engages in farming, he does not expect large profits, nor does he fear heavy losses. He chooses a healthy occupation for himself and family, a safe investment for his capital, and is content with a slow but sure increase of wealth. On the other hand, if he engages in the manufacture of explosives, or embarks in some speculative scheme, he anticipates a much higher rate of profit. He knows

that the venture is extra hazardous, but he expects that success will be proportionally advantageous. Experience proves his theory correct. Risk and danger discourage competition in hazardous enterprises, and leave for those who engage in them a wide margin for gain. Hence we have the general rule that profits should increase in proportion to the risk.

The rate of profit depends also upon the amount of sales. A retail dealer, who sells a limited amount of merchandise in small parcels, cannot afford to accept the same percentage of gain as the wholesale merchant, who disposes of large quantities in the original packages. Hence — other things being equal — the rate of gain decreases as the amount of sales increases.

The ratio of profit also depends upon the quickness of sales. The trader who buys a barrel of sugar in the morning and sells it, at a profit, before night — repeating the transaction every day — makes more than three hundred profits in a single year. Each profit may be small, but the gain is compounded daily, and his capital increases rapidly. A net gain of only one per cent on each sale gives him more than three hundred per cent annually.

But there are articles seldom called for by purchasers. They sometimes remain months, or even years, on the shelves of dealers before they are sold. On such classes of goods the profits compound at long intervals.

The rate of profit depends, likewise, upon the sharpness of competition. In a newly settled territory, few men care to encounter the hardships, the risks, the dangers of frontier life; consequently there is little competition and a good opportunity for gain.

But large profits always attract adventurers, hence competition increases and prices diminish. This process generally continues till the expenses of some of the parties become greater than the profits. Then failures follow, and the number of competitors is reduced.

Various other causes are continually operating to determine the net profits in business enterprises, but these are sufficient for our purpose.

CHAPTER XXVIII.

DISTRIBUTION OF PROFITS.

IF a person owns a farm and performs the labor necessary to cultivate it, the profits belong to the owner.

But if two men own a farm jointly, a division of the gain becomes necessary. This, however, is easy, provided that each performs the same amount of labor and owns an equal share of the property. The division in this case is perfectly simple; the parties share alike the gains and losses.

But if one person owns land and another cultivates it, the question of division becomes more difficult. The basis of division, of course, should be the amount of each one's investment. But one invests real estate, the other personal effort. The one is dead matter, the other brain and muscle. The elements are unlike, and there can be no direct comparison between them. The problem involves a factor of uncertainty which is liable to produce trouble. Thus far, the only practicable solution is to compute, as nearly as possible, the money-value of the rent of the real estate and the value of the labor, and then divide the profits, using these as a basis for division. This method has usually proved satisfactory when the net gain has been enough to pay a fair rate of interest on the investment, and to afford wages sufficient to enable the laborer to maintain his family comfortably. But when the net profits, from any cause, become greatly reduced, trouble frequently arises between the owner and the worker, even when the problem is so simple.

But as the case becomes more complicated, the difficulties rapidly increase. Let us take, for example, a large manufacturing establishment. In the first place, the government collects a certain amount of tax, which must be paid whether there is any profit or not. The property is held for the payment. This element is to be considered in every scheme for the division of profits.

Now, after the taxes and other expenses have been paid, the owners of the land claim enough of the profits to equal the current rate of interest on the investment. Those who construct the building expect a larger percentage, because repairs will be frequently needed, and the building itself will finally decay. Other persons furnish the machinery, and demand a still higher rate because it is of such a nature as to deteriorate rapidly. Others supply the quick capital, and expect more than current interest on their money because the risk is greater than in an ordinary investment. Those who perform the muscular labor must receive enough to support their families comfortably, to educate their children properly, and to accumulate something for their maintenance in time of adversity. Those who supervise the work must have more pay than the common laborer, on account of their superior skill and ability. And the general manager, who furnishes brain and energy sufficient to unite all these elements, and cause them to work harmoniously as a gain-producing agency, must have a salary proportional to his ability.

Such are some of the difficulties of the problem for the distribution of the profits of one single manufacturing establishment. To make an equitable division is not easy, even when the gain is uniform and sufficient. But uniformity is not a characteristic of the business world. Unusual

commercial activity is always followed by a certain degree of stagnation. Large profits are not unfrequently followed by heavy losses.

Hence any scheme for the equitable distribution of gains must contain some provision for the satisfactory adjustment of losses. Some method should be devised by which the failure of capitalists may be avoided, and the suffering of laborers and their families may be prevented, during times of business depression.

This problem has proved a difficult one, even when applied to a single case. What, then, may be expected when an attempt is made to establish principles, formulate rules, and enact laws for the adjustment of losses and gains, which shall be equitable and satisfactory to all parties, in all cases and under all circumstances. This is the problem, and it is not an easy one.

It might be supposed that the experience of European nations, during so many ages, would have developed some satisfactory method of distribution. But their experiments, for the most part, have proved failures, and their successes will scarcely serve as precedents for us on account of the different circumstances. The conditions and relations of the various classes of society in this country are, in many respects, different from those in the Old World; the rate of interest is usually lower; the laborers are largely of a different class; few of the circumstances affecting the adjustment

of gains and losses are similar. Hence the principles upon which the distribution of profits has been made there may not prove to be applicable here.

One thing, however, is certain, — that time, experience, and wisdom ought to be able to devise a scheme for the satisfactory adjustment of the difficulties between laborers and employers.

CHAPTER XXIX.

JOINT LABOR ASSOCIATIONS.

LABOR and capital have always been considered the most important elements of Political Economy. Capital cannot be made productive without labor, and labor cannot find employment without capital. They are necessarily associated in every business enterprise ; they are partners and joint agents in acquiring gains, therefore they should share the profits. But it has been shown that a perfectly just and equitable distribution of earnings or profits is a difficult problem. Hence controversies have often arisen between laborers and the managers of various branches of business.

To remedy these difficulties, numerous forms of joint labor associations have been advocated by certain sanguine reformers. The theory is that laborers should unite and form associations, choose

officers, select managers, and engage in various kinds of business enterprises—such as building, manufacturing, retailing, wholesaling, importing, exporting, etc.,—and, after paying the expenses, divide the profits among the members.

But it may be asked, what is the difference between a labor association of this kind, and a common company or corporation? It is this: In a corporation, salaries, wages, and expenses are paid, and then the net gain is divided among the stockholders. In a joint labor association, expenses only are paid, and then the profits are distributed among the members. In the former case, the laborer is only a hired worker; in the latter, he becomes a partner. He has a voice in the management and a share in the profits; and it is claimed that such a system ought to produce harmony between labor and capital. Certainly the theory seems practical, but success has rarely attended its application. Failures have resulted from various causes, but the chief reason seems to have been the want of suitable persons for general managers.

Men whom Nature designed for leaders, whom education and experience have fitted for superintendents of important enterprises, are not content to become heads of labor associations. Such persons can command high salaries, and will not submit to a division of the profits with those of inferior ability. Men who have brain, energy, and execu-

tive force are few, and are seldom found among common laborers. They can choose their places and name their salaries.

But men of inferior capacity frequently overestimate their powers, and are willing to assume responsibilities for which they are not fitted. Hence weak men often became leaders in such societies. This has been one of the most common causes of their want of success.

Another reason is that the income of each member depends upon a division of profits, and not upon his own efforts. It may be said that this should make no difference ; for a man ought to work just as diligently in one case as in the other. But Political Economy does not treat of an ideal world. It takes men and things as it finds them, and tries to make them better.

It is a fact admitted by all, that men will not plan so carefully, economize so rigidly, and work so faithfully, to increase the income of an association, as they will if they are to receive the whole profit. Hence gains are liable to be less, and losses greater, in such associations, than they would be if affairs were managed by one proprietor. Community of interest always weakens individual responsibility, and is often the source of failure.

The suspension of the income of the members of these joint unions, in times of business stagnation, has been another cause of their failure. Usually shareholders in regular companies buy stocks with

surplus earnings. They do not depend on dividends for their daily bread. Hence they do not suffer for want of food and clothing when a financial crisis comes.

But men who unite and form joint labor unions usually invest in them what little capital they have, and spend the income as soon as received. This is all very well as long as gains are sufficient and constant, but when a panic comes, when losses are to be adjusted, when dividends cease, then most of the members are left without income. But their families must have bread.

The result is that the majority of the shareholders sell their interest at a heavy loss to men who have capital, and have been waiting for just such an opportunity, which they knew would come sooner or later. Thus the joint union dissolves ; the members lose the greater part of the money invested, and are content to return to the old system of laboring for wages, which seems to be the natural method.

CHAPTER XXX.

INCOME FROM CAPITAL.

CAPITAL represents surplus wealth secured by previous labor. It has already been shown that reasonable compensation should be paid for the

use of capital. Hence the managing agent of any business enterprise should be able to pay to the owners of the stock such a share of the net gain as will be equal to the current rate of interest. If the return is more than ordinary interest, competition will soon reduce it to the common level. If it is less, capital will seek some other place for investment. The man who risks his property in a legitimate business has just as good reason to claim compensation as the laborer has to expect wages.

The same principle holds true in respect to companies and corporations. Stockholders ought to receive an equitable share of the net earnings. But dividends should be computed on real value, not on fictitious capital. Every dollar of the stock of a corporation should represent a dollar actually paid into the treasury. This was the original idea of a corporation, and it ought not to have been abandoned, even though our system of internal improvements might have advanced less rapidly.

But, unfortunately, new methods have been adopted which time and experience will probably prove to be erroneous, and, it may be, even dangerous.

A new and growing community invariably absorbs an unusual amount of capital. This has proved specially true in the settlement of our Western States and Territories. Extensive systems of railways seemed to be needed for carrying the

surplus products to markets on the seaboard. But the prospect of legitimate dividends, derived from net earnings of railways in new settlements, was not sufficient to induce capitalists to invest their funds in such enterprises. Hence a scheme was devised by which credit would take the place of capital, and a high rate of interest could be substituted for dividends. For a time this new system was very popular.

Under this arrangement, a few shrewd managers form an association, obtain a charter, secure a donation of land if possible, execute a mortgage on the franchise and prospective property, and issue bonds bearing a high rate of interest for enough to build and equip the road. These are placed in the hands of trustees, to be delivered to the managers as the road progresses. The bonds are sold, and the proceeds used for construction and equipment purposes. Thus the road is built by means of funds furnished by the bondholders. The capital stock is retained in the hands of the managers, and represents no real value actually paid into the treasury. In this case the bondholders are the real owners, while the management is entirely under the control of the stockholders. The scheme was bad in theory, and has proved worse in practice. The risk is all with the bondholders, who advance their money on poor security; the gain, should there chance to be any, is all for the managers. But capital stock which represents

no real value should bring no return. Parties who incur no risk should have no share of the gain. The bondholders should receive the amount of interest promised, and the managers proper compensation for their services. But if the stockholders obtain a share of the net earnings, in the form of dividends, injustice will be done to other parties. In such case the schedule of charges for transportation must be too high, or the payments for labor too low, or both interests may suffer jointly. Such practices are too common, and have served to produce distrust in the popular mind. Many corporations are now paying dividends on capital stock which does not represent real value. Hence laborers complain that they do not receive a fair proportion of the net earnings, while patrons accuse corporations of being monopolies and charging extortionate prices. Thus there is increasing difficulty between companies and individuals. There ought to be some effectual remedy.

The above is only one method of placing on the market stocks which have no real value. There are numerous other devices which need not be explained. The principle is the same for all cases,—that only capital stock representing *value* should receive dividends.

CHAPTER XXXI.

THE BUSINESS MANAGER.

POLITICAL economists all agree that there are two primary elements in every business enterprise,— capital and labor. This fact no one pretends to dispute. But it is now quite generally admitted that there is also a third distinct element,— the management. And it is thought by some that much of the confusion in regard to the labor question has resulted from not recognizing this third element.

In every business enterprise there must be capital, and there must be labor; but there must also be a head, an executive with sufficient capacity to unite the other two elements and cause them to work harmoniously and profitably. This managing agent should so utilize capital by the employment of suitable labor, that he may pay reasonable interest on the investment, and satisfactory wages to the workmen,— reserving sufficient compensation for management, and setting apart ample surplus to provide for probable contingencies, so that wages and dividends may not cease when a financial crisis comes. Such are some of the results to be accomplished by a business manager, but his duties cannot be readily defined.

The failure to recognize this third element has probably resulted from the fact that the manager

has frequently furnished the capital, and sometimes performed the labor, thus uniting two or even three interests in one person. The subject can probably be best understood from familiar illustrations.

If a man hires a farm, employs men to cultivate it, and he himself manages the business, the three parties are distinct. In this case the owner expects his rent, and the laborers demand their wages, whether the manager gains or loses. If there is net loss, he suffers it; if net gain, he ought to receive it. The risk gives the manager the title to the profits.

If a man owns a farm and hires men to cultivate it, he is the owner and manager at the same time. But how shall he divide the profits? In the same manner as before, only he should receive the shares of the two interests.

But if a person hires a farm, manages it himself, and performs all the manual labor, then he represents both the manager and the laborer. In this case he should pay rent to the owner of the real estate, and reserve to himself the share of the other two parties.

Finally, if a man owns a farm, manages it himself, and performs all the labor, then he represents the three parties — capitalist, manager, and laborer. He should receive interest on his investment, wages for his work, and the remainder of the profits for his management.

In these cases the manager incurs the risk,

therefore he should receive the gain, after all charges are paid.

These illustrations apply to corporations. Usually the managers own the capital stock. The stockholders, therefore, representing two parties, should receive fair interest on their investment, and the net gain, after paying satisfactory wages to laborers.

CHAPTER XXXII.

WAGES.

WAGES may be defined, according to Dr. Webster, "A compensation given to a hired person for his or her services." Sometimes other expressions are employed to denote payments made for labor, but these are all comprehended under the general term — wages. Thus, the hackman receives fare ; the boatman, freight ; the inventor, royalty ; the author, copyright ; the president, salary. And yet all these are wages received for personal services.

Like every other exchangeable commodity, the price of labor is constantly changing. There are numerous circumstances which tend to establish the price of labor at any given time and place.

The cost of living has an important influence. The laborer must have food, clothing, and shelter for himself and family. These are the prime necessities of life, and the laborer must earn enough

to procure them. This is the natural minimum of compensation. If the scale of ordinary wages becomes permanently less than this standard, the labor-system will finally become demoralized ; able-bodied men will become paupers, and the working-classes will rebel or emigrate to more favorable localities. Ireland has long been an example of the effect of paying starvation wages.

But the cost of living varies greatly in different places. In some of the eastern countries the expense of maintaining a family is exceedingly small, and the price of labor is correspondingly low. In the United States, expenses are many times greater, and wages are very much higher.

The cost of living varies also at different times. Thus in California, soon after gold was discovered, provisions and groceries were sold for almost fabulous prices, and laborers claimed equally exorbitant wages. When the excitement subsided, prices and wages both declined to reasonable figures.

The cost of supporting a family varies also according to the station which the laborer occupies. The necessary expenses of the President of the United States are vastly more than those of an ordinary private citizen. Hence—other things being equal — there ought to be a marked difference between their receipts for services.

Thus it might be shown that the cost of living and the price of labor have always exerted an important influence upon each other. There has

never been a marked variation in the former, without a corresponding change in the latter.

Now, some have argued that prices of necessities control wages. Others have contended that wages regulate prices. But it is not proposed to discuss this question. It may be well to remark, however, that a rise of wages invariably *follows* an increase of prices—never *precedes*. This would seem to indicate which should be considered the cause, and which the effect.

Again, it may be remarked that the price paid for work depends greatly upon the kind of service. The man who carries brick and mortar is sometimes envious of the master-builder. But it should be considered that the former is paid simply for *elementary* labor; the latter, for *skilled* labor. The services are different in kind, and the wages should be as the quality, not quantity. The common laborer could not do the work of the master-builder; hence he should not expect like compensation.

Higher wages are also paid for mental than for physical labor. The physician, the lawyer, the teacher, the clergyman, receive more for professional services than does the uneducated man for manual labor. The reason is obvious. The quality of the service is not the same. The man who has spent years of the best part of his life, and a large sum of money, preparing for his vocation, should not work so cheaply as the common laborer.

who has made no preparation. Professional training has sometimes been called the capital stock of the educated person.

A high rate of wages is also paid for executive ability. The private soldier sometimes complains because his pay is so small compared with that of the commanding general. But the latter is paid for his military skill, his intellectual capacity, his executive ability. Few men are capable of commanding a great army. If a person does what other men cannot do, he should be paid accordingly. The best service should receive the highest wages.

The price of labor likewise depends upon the value of the currency. It makes a difference whether a man receives his wages in gold, or in depreciated paper. During our civil war, gold and silver ceased to circulate as money, and treasury notes became legal tenders for the payment of ordinary debts. The result was that paper money rapidly depreciated, until thirty-five cents in gold would buy a paper dollar. But as the currency depreciated, wages increased. When the war closed, greenbacks became more valuable, and wages became less.

But it is questionable whether the intrinsic value received for labor at any time during the war was really as great as it is to-day, although the nominal amount was very much more. So it has always been. Wages increase as the intrinsic value of the currency decreases, and *vice versa*.

Demand and supply also have an influence on wages. When there are more laborers than there is work, wages decrease. When there is more work than there are workers, wages increase. These changes result from competition.

This principle explains why women have received less pay for the same kind of service than men. There have been comparatively few kinds of work which women have been considered able to do. Consequently there have been more women seeking work than could find employment. The supply has been greater than the demand. Competition has produced the natural result—the wages of women have been too low. The remedy is to create sufficient demands for woman's work. Competition will then be less, and the difficulty will be removed. There has been marked improvement in this respect during the last few years.

But the most important element in determining the price of labor is the amount of net gain. High wages may be paid when business is profitable. Wages must be low when gains are small. If there is no net profit, wages must cease, unless they are paid from the capital invested. For a short time, during temporary commercial stagnation, laborers may be paid from surplus capital, derived from previous earnings, even when there are no net profits. But the general principle is, that wages must be paid from net earnings. Hence laborers ought to be interested in the prosperity of

business enterprises. Home consumption should be encouraged, foreign markets should be sought, ruinous competition should be avoided, confidence should be restored, and the laborer should receive an equitable share of the profits.

CHAPTER XXXIII.

LABOR DIFFICULTIES.

As has been previously stated, many important improvements are needed, which cannot be secured by individual enterprise. The risk and expense are too great for one person to incur. Hence, numerous companies have been formed for various purposes. But in order to accomplish the desired objects, these associations must have special powers not granted to individuals.

For example, when a railway is to be constructed, the company must have the right to build it across land owned by private parties, by paying proper damages. Other privileges must also be secured, not permitted by the common law. Hence, a company of persons form an association and secure from the law-making authority a grant to exercise certain special powers for specific purposes, which are presumed to be for the public good. Such grants are called charters. In some States they are obtained under general laws; in others by

special acts. These companies have been very useful in developing the resources of the United States.

But sometimes complaint is made that corporations exceed their granted powers, violate their charters, and oppress their employees. It is frequently asserted that the distribution of profits is not equitable—that wages are too low compared with dividends. Doubtless, in some cases, there are reasons for complaint, and there should be some means for legal investigation—some effectual remedy for labor difficulties.

The State, which has granted to corporations certain special privileges, should see that these extraordinary powers are properly exercised.

There should be in every State a labor commission, composed of men of character, ability, and experience, to which all questions in regard to freight, travel, express, and labor, arising between corporations and individuals, should be referred. This commission should have ample powers to examine books, to compel testimony, to investigate complaints, and to decide all disputes between labor and the managers of capital.

There should, however, be the right of appeal, in certain cases, to a court of arbitration having final jurisdiction, by which unjust complaints could be investigated and silenced; and valid ones could be heard and remedied.

QUESTIONS.

INTRODUCTION.

- What is political economy ?
- Of what does it treat ?
- What is politics ?
- Of what does it treat ?
- What is the difference between political economy and politics ?
- What is intrinsic value ?
- What is commercial value ?
- Difference between intrinsic and commercial value of air ?
- Of water ?
- When will water have a commercial value ?
- What is money ?
- What is worth ?
- What is cost ?
- What is price ?
- What is wealth ?
- Why should not air and sunlight be considered wealth ?
- What is labor ?
- What is capital ?
- What is quick capital ?
- What is permanent capital ?
- What is productive capital ?
- What is unproductive capital ?
- What is a capitalist ?

CHAPTER I.— PAGE 5.

What is said of the spontaneous products of Nature ?
 How can wealth be produced ?
 What will overcome man's love of ease ?
 What will induce the savage to labor ?
 How is the wealth of the savage obtained ?
 Why has he so little wealth ?

CHAPTER II.— PAGE 6.

What is the effect of moral and intellectual improvement
 on wealth ?
 Hunger teaches what ? Famine what ?
 What is the food of shepherd tribes ?
 What are the requirements of shepherd life ?
 What sustains their flocks and herds ?
 Why must their homes be temporary ?
 What serves to restrict the amount of wealth of shepherd
 tribes ?

CHAPTER III.— PAGE 8.

What is said of a nomadic life ?
 Result when food or water fail ?
 Effect of a severe winter ?
 Result when men become tired of a shepherd life ?
 Why do men cultivate the soil ?
 Why do they build houses and barns ?
 Why do shepherds become agriculturists ?
 What is the tendency of civilization ?

CHAPTER IV.— PAGE 9.

What is the prime element of wealth ?
 How does the savage supply his wants ?
 What is said of special aptitudes ?
 Result of a man's doing a little of everything ?

What kind of work should each one do ?
 What causes a demand for more rapid production ?
 Explain what is meant by division of labor ? Illustrate by the shoe business.
 Name some of the advantages of a division of labor.
 What will determine the limit of the division of labor ?

CHAPTER V.—PAGE 12.

Wants of the savage ?
 Increase of wants ?
 Substitutes for human muscle ?
 What animals have been used for motive power ?
 What kinds of labor have been performed by them ?
 What is the effect on the production of wealth ?
 What are the objections to domestic animals ?
 What was next used as a motive power ?
 For what has the wind been employed ?
 What are the objections to its use ?
 What was next employed ?
 Why is water better than wind as a motive power ?
 Advantages and objections ?
 What is said of steam as a motive power ?
 What has been accomplished by the steam engine ?
 For what has electricity been used ?
 What has been accomplished by it ?
 What may be expected in the future ?

CHAPTER VI.—PAGE 16.

What is said of tools and implements ?
 For what are they used ?
 When does complicated machinery become necessary ?
 Examples.
 What is said of the application of wind, water, steam, and electricity as a motive power ?

CHAPTER VII.—PAGE 19.

What is capital ?

Something besides labor necessary to produce wealth ?

What is the capital of the Indian ?

Capital of the fisherman ?

What are payments for labor ?

Why are not wealth and capital synonymous terms ? Illustrate.

CHAPTER VIII.—PAGE 20.

What is the natural tendency of capital ?

What effect have mountains, lakes, rivers, and the ocean on the increase of capital ?

What influence has the nature of the soil on capital ? .

Influence of climate ?

Character of the inhabitants ?

Nature of the government ?

Why is capital a political barometer ?

CHAPTER IX.—PAGE 24.

What is trade ?

What is direct trade ?

Give an example of barter.

What is the second stage of trade ?

What is the reason for the demand for traders ?

What are exports ?

What are imports ?

Who are exporters ?

Who are importers ?

What are duties ?

What is a tariff ?

What is the difference between specific and ad valorem duties ?

When do luxuries become necessities ?

What is said in regard to restrictions on trade ?

CHAPTER X.— PAGE 28.

What is the theory of free trade ?
 What is the argument from the Bible ?
 What is the answer ?
 Why should the owner of stalls in a market receive pay for their use ?
 Why should a nation receive pay for the use of its markets ?
 What is said of the moral right to levy a duty on imports ?
 What then does the question become ?
 What effect has the collection of duties on other forms of taxation ?
 What is said of direct taxation ?
 What answer has been given ?
 What kinds of articles have usually been taxed ?
 What is the argument from benevolence ?
 What should be the answer ?
 What is said of charity ?

CHAPTER XI.— PAGE 32.

Why are governments necessary ?
 Why is taxation of some kind essential ?
 What is the theory of taxation for revenue ?
 What are the principal objections ?
 What is said of taxing alcohol and tobacco ?
 Can an evil be remedied by taxation ?
 How can evils be prevented ?
 What will be the effect of levying a high duty on luxuries ?
 What is said of the application of this theory ?

CHAPTER XII.— PAGE 34.

What is the theory of the protectionist ?
 How does a duty on imports protect home industry ?

What will be the effect of free competition ?

What would be the effect if cotton cloth were placed on the free list ?

What, when there is a high duty ?

How does a high tariff benefit the manufacturer ? The mechanic ? The farmer ?

What is said of conflicting interests ?

What are the difficulties in regard to duties on iron ?
Lumber ? Sugar ?

Does "protection protect ?"

What are the final results of a protective tariff ?

CHAPTER XIII.—PAGE 39.

What are some of the theories which have been advocated ?
They are modifications of what ?

What is said of the need of protection in a newly settled territory ?

What in older communities ?

When should artificial barriers be removed ?

When may absolute free trade be the true policy ?

What should decide questions of revenue ?

When should changes be made ?

CHAPTER XIV.—PAGE 42.

When is there no need of money ?

When is there need of money ?

What is money ?

What is the measure of distance, surface, capacity, weight ?

What substances have been used for money ?

What property must a measure of value possess ?

What are four essential qualities which money should possess ?

Are there any others ?

Objections to the substances previously mentioned?

Why have gold and silver been used?

How was the value of money ascertained?

What are the objections to weighing out money?

CHAPTER XV.—PAGE 45.

When were coins first used?

When did the Lydians coin gold?

Who were the Lydians?

When did the Romans coin silver? When gold?

What metals are now used for money?

What are coins?

Can the value of metal be changed by stamping?

What would be the effect of calling half-dollars, dollars?

Why did kings debase the coins?

What were the effects of debasing the coins of the realm?

What would be the effect of shortening the yard-stick?

Of lengthening it?

What nations have tampered with the coinage?

What results have followed?

CHAPTER XVI.—PAGE 48.

Should the unit of value be made of gold or silver?

Arguments in favor of silver as a standard?

Objections?

Why should gold be the standard?

Arguments in favor of both gold and silver?

Objections to a double standard?

What was the effect of the discovery of gold in California and Australia?

Of the discovery of silver in Nevada?

What is said of an adjustment of the ratio, when there is a double standard?

What is the weight of the gold eagle?

Weight of the silver dollar?

What change is now necessary?

What is seigniorage?

Why should there be a charge for coining money?

Effect of free coinage?

What is supposed to be the true theory?

CHAPTER XVII.—PAGE 52.

What is a bank?

What is a bank of deposit? Discount? Exchange?
Issue?

Describe the banking system of Greece and Rome.

When was banking revived?

When and why was the Bank of Venice established? Of
Barcelona? Of Genoa? Of Amsterdam?

How were payments made through these banks?

Explain how bills of exchange originated.

What is said of loaning deposits?

When was the Bank of England organized?

Why was it established?

Its original capital?

How does the bank regulate the circulation of specie?

Is such a bank needed in the United States?

When will New York become the financial centre?

CHAPTER XVIII.—PAGE 56.

Describe the Bank of North America.

Give a history of the first Bank of the United States.

When did its charter expire?

What will be the future decision in regard to this bank?

When and why was the second Bank of the United States
organized?

When did its charter expire?

How was it managed?

What was the result?

CHAPTER XIX.—PAGE 60.

What is said of the charter of State banks?
When was the first one chartered?
What were the objections to State banks? Failures?
Losses? Panics?
When and where were the State bank notes redeemed?
What was the limit of the circulation?
What were the results?
What were the causes of financial difficulties under the old system?
What was the effect of the civil war on the banking system?
Why was there a suspension of specie payment?
How was the State bank system changed to a national system?
How could taxation prevent the State banks from issuing circulating notes?
Why was there no objection to the change?
What would be the effect of the repeal of the law by which the circulation of State banks is taxed?
Which is the better system? Why?

CHAPTER XX.—PAGE 66.

What is the most important use of banks?
What is the average amount of daily deposits?
What proportion of the deposits may be safely loaned?
Do national banks pay interest on deposits?
What are savings banks?
Why were they organized?
When were they established?
By what authority are they organized in the United States?
What is said of their deposits, loans, dividends, management, usefulness?
Should there be government savings banks connected with post-offices?
Reasons? Objections?

CHAPTER XXI.—PAGE 70.

What are the principal corporate powers of the national banks?

How may they be organized?

What is free banking?

Who may become stockholders?

What is the legal amount of capital stock?

When must it be paid in?

How many dollars constitute a share?

What are the liabilities of shareholders?

What is said of surplus capital?

For what can it be used?

What are the qualifications for directors?

Duties of directors? Residence?

Bonds to be deposited?

Why are the bill-holders secure?

What will be the effect when the bonds are all paid?

For what are the bank notes legal tenders?

Exceptions, and why?

Where are the notes redeemable?

Why are they redeemed?

When and by whom destroyed?

On what kinds of security are national banks prohibited from loaning money?

What statements are they required to make?

When do the banks serve as national depositories?

What is said of the system?

CHAPTER XXII.—PAGE 78.

What are treasury notes?

Why were they issued?

For what were they legal tenders?

What should have been done with them?

Why are they the source of financial danger?

What is meant by the "balance of trade?"

What will be the effect when the balance of trade is unfavorable to us?

If the "greenbacks" should be destroyed, what would take their places?

How does the government save paying interest by issuing treasury notes?

What value do "greenbacks" represent?

What is the limit of their issue?

When are they necessary?

CHAPTER XXIII.—PAGE 83.

What besides specie are used for money?

Can the exchanges be made with these alone?

What are book accounts?

What are the objections to them?

Why are notes better than accounts?

Who is the maker of a note? Payer? Holder?

What is a check?

What are certified checks?

What is the difference between a common check and a certified check?

What are certificates of deposit?

Why are they convenient?

What is the difference between a certified check and a certificate of deposit?

What is a cashier's draft?

What is an ordinary draft?

What is the difference between the two?

How do drafts serve as mediums of exchange?

What is the office of the banks in such cases?

For what purpose is currency used in exchange?

CHAPTER XXIV.—PAGE 89.

What is rent?

What is the first element of rent?

What is the second? The third?

Illustrate each of these by examples.

What will cause a decrease of rent?

CHAPTER XXV.—PAGE 93.

What is interest?

When, where, and why was interest formerly considered illegal?

The effect of such laws?

What is the principal incentive to labor and to accumulate property?

Why should the lender of money receive compensation?
Illustrate.

Show how a loan may benefit both the borrower and the lender.

How do the banks serve as loan agents?

How do banks compare with agents?

CHAPTER XXVI.—PAGE 96.

What is the primary object of government?

Mention some essential objects to be accomplished by government.

What others have an indirect influence in protecting life and property?

How are the expenses for accomplishing these objects to be secured?

How should the taxes be assessed?

What proportion shall be assessed on the person and what on property?

Shall all persons be taxed alike?

Shall there be any exceptions?
 What is a poll tax?
 What is a property tax?
 What is direct taxation?
 Shall wealth or capital be taxed?
 Shall there be exemptions of property?
 What is said of an income tax?
 What is the rule for taxation?
 What is indirect taxation?
 What is excise?
 What are customs duties?
 What is internal revenue?
 What is said of taxation during the civil war?

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